

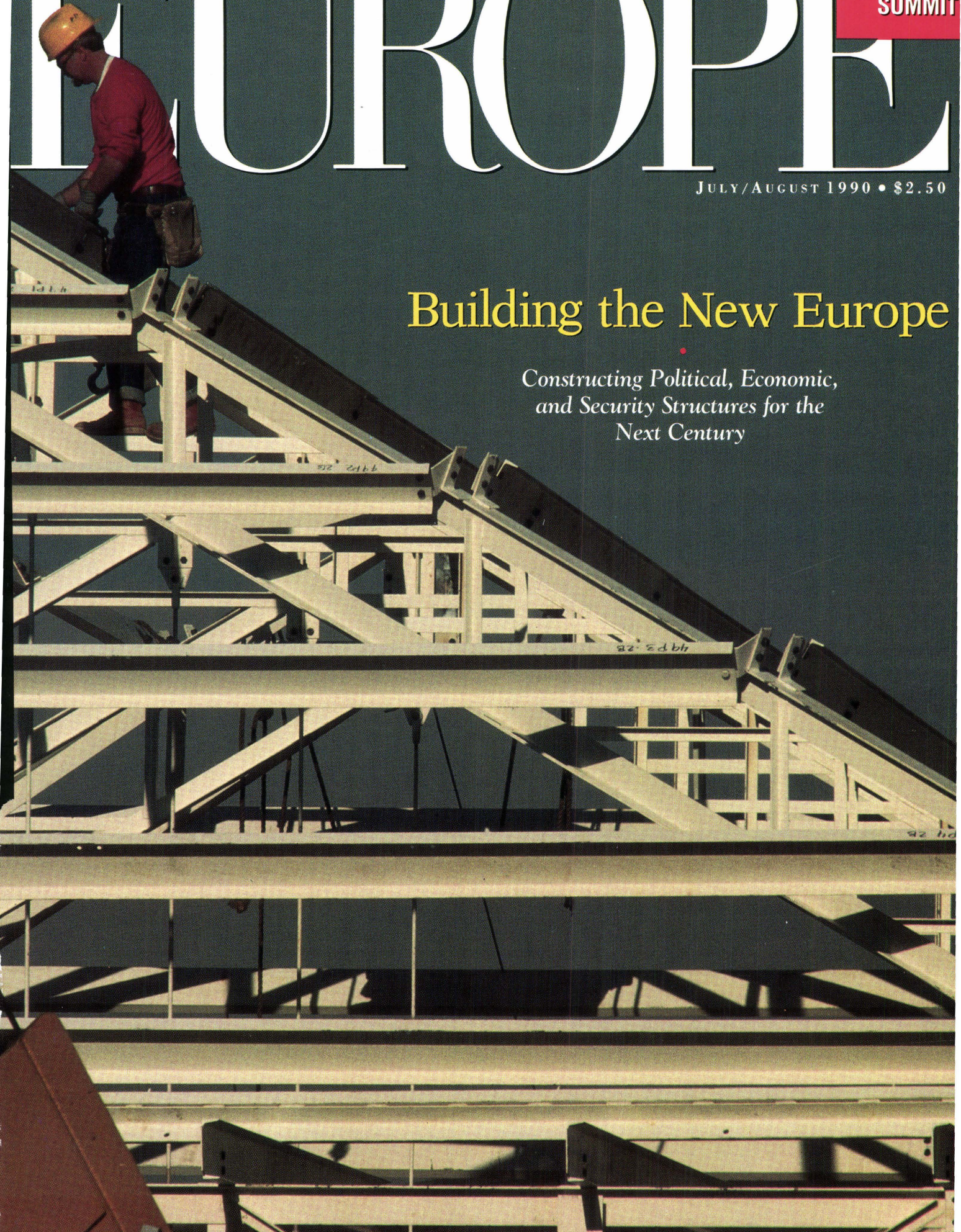
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*Constructing Political, Economic,
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EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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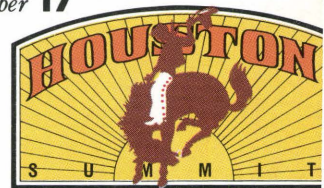
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Letter From The Editor

BUILDING ON THE THEME OF

U.S. Secretary of State James A. Baker's "A New Europe, A New Atlanticism" speech last year calling for a "New Architecture for a New Era," *Europe* looks at the various new political, economic, and security structures being considered for the New Europe.

Europe asked leading European and U.S. journalists to view the New Europe as it might look in the year 2000:

- Reginald Dale, the Economics and Financial Editor of the Paris-based *International Herald Tribune*, takes a look at Europe's new architecture in a few years—after events have had time to sort themselves out.
- Richard Longworth, the *Chicago Tribune's* chief European correspondent, looks at events in Eastern Europe, and presents his views on where these newly "free" nations will be at the turn of the century.
- Lionel Barber, the Washington correspondent of the *Financial Times*, presents a fantasy of the future with serious overtones about U.S.-E.C. relations in the year 2000.
- Carola Kaps, the Washington correspondent for the German

Frankfurter Allgemeine Zeitung, reports on German unification, and looks down the road to see the implications of a united Germany on the New Europe.

- Barry Wood, a leading writer on economic issues, outlines U.S. involvement in Europe since World War II, and predicts what future role America might play in the New Europe.
- Paul Volcker, former Chairman of the Board of Governors of the Federal Reserve, in an exclusive interview with *Europe*, looks at Europe's economic and financial future. He comments on the Eurofed, the European Currency Unit, and the possibilities of market economies succeeding in Eastern Europe and the Soviet Union.

The Houston Economic Summit, hosted this year by President George Bush in his native Texas, is covered in a special section. Peter Rashish looks at the key issues to be discussed: The New Europe, the environment, trade, agriculture, third world debt, and drugs. Gail Rickey provides helpful information on what to see and do in Houston during the summit. And in a new section, entitled STATE PROFILE, *Europe* gives an overview of Texas-E.C. relations: The amount of E.C. investment in Texas might surprise you—and it continues to grow!

Laura Raun of the *Financial Times* writes our Member State Report on the Netherlands, and discusses how Amsterdam hopes to become the financial gateway city for the New Europe.

I hope you enjoy our special issue on Building The New Europe and the Houston Economic Summit. I welcome your comments.

Robert J. Guttman

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COVER: The New Europe is rapidly being built.

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EUROPEAN SCENE



VIVA VENEZIA!

After a worldwide outcry from art lovers who felt that too many tourists would deal a fatal blow to the historic canal city, Venice was withdrawn as a candidate to host Expo 2000.

Leading critics included the European Parliament, authors Gore Vidal and Umberto Eco, and designer Giorgio Armani.

Hanover, Germany, has been chosen to host the event instead.

Buried Treasure in Texas

In 1945, medieval treasures from the cathedral of Quedlinburg (now in East Germany) disappeared from a nearby mineshaft where they had been hidden shortly before the German surrender. These valuable works of art and illuminated manuscripts, described as "rare beyond belief" by art expert Richard M. Chamber, have been missing since the American troops occupied the area on April 18, 1945.

The treasures have recently surfaced in a bank vault in the small farm town of Whitewright, Texas, apparently having been stolen by former U.S. Army officer Joe T. Meador, who was stationed in Germany at the end of the war and who died in Texas in 1980. Specific details of "one of the world's greatest art thefts" remain buried with art lover Meador, however.

Two of the manuscripts have been sold mysteriously through a Swiss middleman to a West German art dealer, and West German cultural officials hope to recover the remaining Quedlinburg works of art.

SCHENGENLAND?

Don't look for Schengenland on a map of Europe.

However, the Schengen Accord that was recently signed by France, Germany, Belgium, the Netherlands, and Luxembourg, will lift all border controls on the movement of people between these five countries.

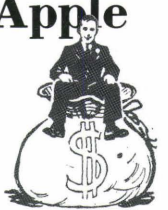
The Schengen Accord (named after the small Luxembourg town that borders Germany and France) will serve as a blueprint for the 1992 single market without borders.

Czeching Out the Big Apple

The new Czechoslovakian first lady Olga Havlova, wife of newly elected Czech President Vaclav Havel, was in New York in June to raise funds for handicapped Czechoslovakian citizens. To make her stay in New York City more comfortable, former countrywoman Ivana Trump (née Zelnikov) graciously provided both Havlova's suite at the Trump-owned Plaza and the reception for the Czechoslovakian Society for the Handicapped.

Confronting the difficult task of running an international charity and facing ever-curious journalists, however, proved profitable for the new first lady. She managed to raise \$60,000 for the cause, including a \$5,000 check from actor Paul Newman.

The Havel family have been married for 34 years. During this time, Havel spent five years in prison and the couple was constantly harrassed by police, even in their Bohemian countryside farmhouse. Havlova has not only been supportive of her husband, but has also been active in human rights groups. None of this past activity, however, could possibly have prepared her for the Big Apple and a truly Western concert by the "Material Girl" herself, Madonna.

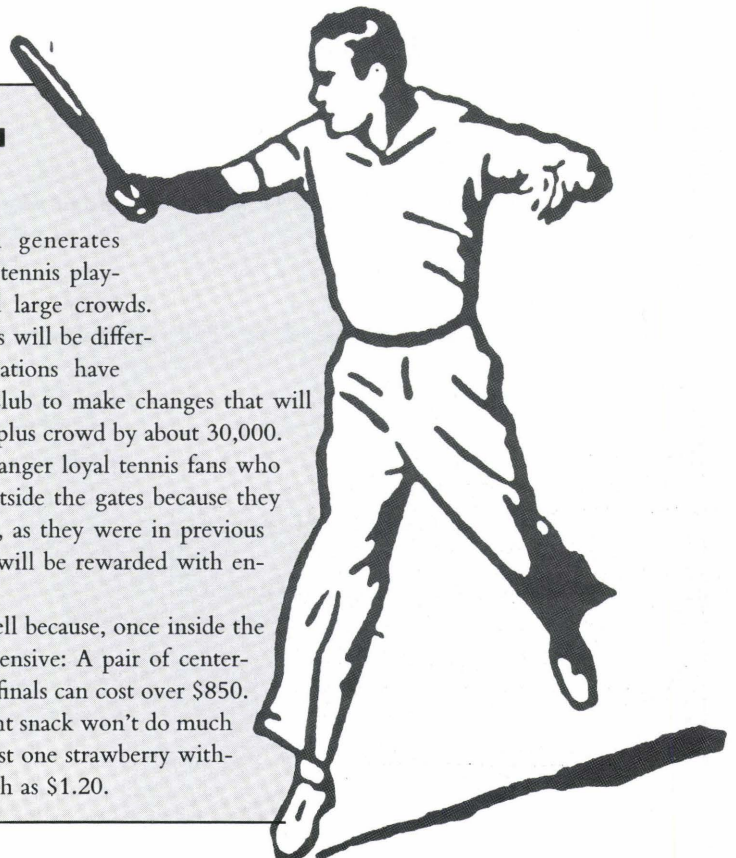


BRING YOUR OWN STRAWBERRIES

The name Wimbledon generates many images—the finest tennis players, British tradition, and large crowds. This year, however, things will be different. Stricter safety regulations have forced the All England Club to make changes that will reduce the usual 400,000 plus crowd by about 30,000.

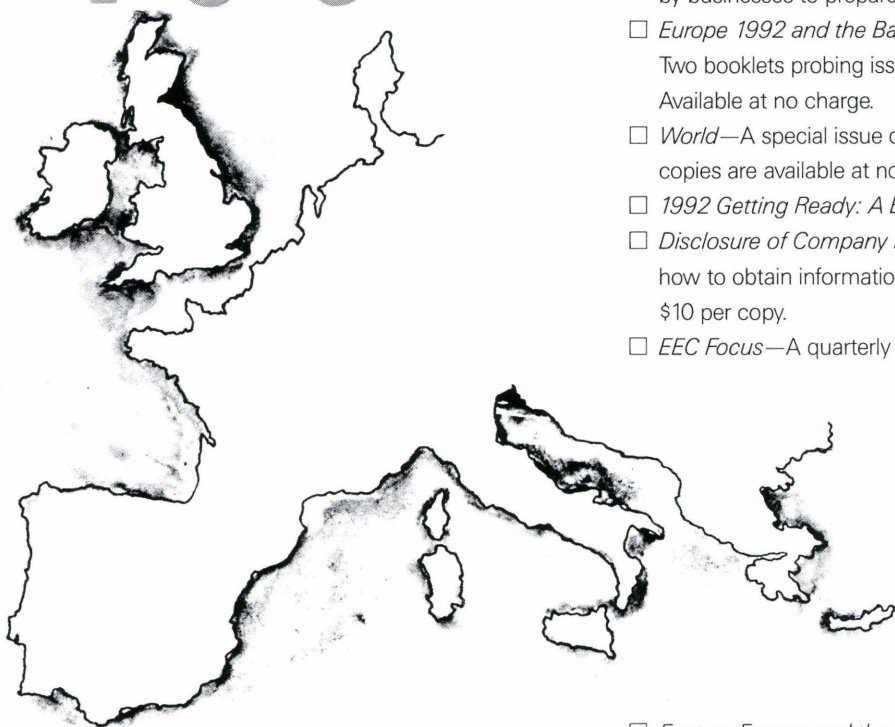
This modification will anger loyal tennis fans who wait for hours in lines outside the gates because they will no longer be assured, as they were in previous years, that their patience will be rewarded with entrance to see the matches.

Perhaps that's just as well because, once inside the gates, things are very expensive: A pair of center-court tickets at the men's finals can cost over \$850. And don't think that a light snack won't do much damage to your wallet: Just one strawberry without cream can cost as much as \$1.20.



GETTING READY FOR

1992



The December 31, 1992, target date for a single European market is less than two years away and companies that want to profit from the new EC are actively preparing for it now.

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- EEC Focus*—A quarterly review of 1992 affairs. Available for \$2.50 per issue.
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*Constructing Political and
Security Foundations for the
Future.*

EUROPE'S New Architecture

When people talk about European architecture these days, they do not mean the self-confident new monuments sprouting in Paris or plans to build the Continent's tallest building in Frankfurt. As the 1990s get under way, the most urgent geopolitical task is widely agreed to be the construction of a new framework of economic, political, and security arrangements in Europe to replace the 40-year-old cold war edifice that suddenly collapsed last year.

As the communist system imploded in Eastern Europe, the institutions that bound Eastern Europe to the Soviet Union—Comecon and the Warsaw Pact—now look virtually meaningless. Indeed, there are grave doubts whether even the Soviet Union can survive much longer in its present form. At the same time, the main Western pillars—NATO and the E.C.—have been left standing. Nevertheless, only a few people believe that they can, or should, survive in their present form. Instead, many West Europeans think that NATO should be revamped and the E.C. strengthened, if they are to serve as the main building blocks of the new European “architecture.” At present, there is more agreement about the future of the E.C. than that of NATO.

Europe's future political and security structure is still only vaguely taking shape on political drawing boards. Its design is complicated by

East-West disagreements over the security status of a united Germany, uncertainty over the role of the 35-nation Conference on Security and Cooperation in Europe (CSCE), which groups both East and West, and question marks over how far the E.C. will become involved in defense issues.

Europe's future economic structure, on the other hand, is much clearer. It is increasingly obvious that the E.C. will be at the center of a web of economic cooperation agreements, which could involve associate status or eventually full Community membership, with most other European countries.

Trade, investment, and other economic activities will flow increasingly freely throughout this wider Europe. On the one hand, the E.C. is currently negotiating a single “European Economic Space” with its six neighbors in the European Free Trade Association (Austria, Switzerland, Norway, Sweden, Finland, and Iceland). The Eastern European countries, on the other hand, will be progressively drawn into this process as they adopt free-market economic policies and practices, and as their economies recover from 40 years of Communist

HENLEY & SAVAGE/JUNIPHOTO ©

mismanagement.

Most plans for the new European architecture assume that Eastern European countries will succeed in their perilous move to capitalism and democracy, and that the Iron Curtain is gone for good. If Eastern European countries cannot create such stability, the main purpose of the new architecture is to ensure that it lasts—just as, in Western Europe, the existence of the E.C. has helped to make a new war between France and Germany unthinkable.

Fortunately, the extraordinary upheavals in Eastern Europe last autumn came as the E.C. had entered a period of dynamic change. Indeed, many in the E.C. would argue that the Community's recent new dynamism, and its obvious determination to turn itself into a thriving single market after 1992, had helped to accelerate the fall of Communism in the East.

But here again the politics are less clear than the economics. It is now almost universally accepted that the move to the single market is irreversible and that major progress will be made toward European economic and monetary union in the 1990s. There is no agreement over how far political powers, such as control of foreign and defense policies, will be transferred to the central institutions, however. The structure of those institutions itself is not yet clear, either. For example, particular uncertainty still persists over the powers of the European Parliament.

So amid all the talk of European architecture, which, both Moscow and Washington agree, will have to include the United States, Canada, and the Soviet Union, there are also major unresolved questions about what is sometimes inelegantly called the "E.C.'s internal architecture."

With potential new members from Eastern Europe already beating at the door (see sidebar), the Twelve have put pressure on themselves to integrate further by deciding to introduce the single market and taking further steps to economic and monetary union before considering new membership applications.

And the other E.C. countries' view of German unification has rapidly evolved in the last few months. Much less is now heard of the fears expressed earlier this year that an all powerful Germany would strain the Community to breaking point as it seeks to dominate Central and Eastern Europe. The general feeling in Western Europe is that German unity, rather than being bad for the Community, could in fact be good for it. The more fashion-

The map of Europe has changed so often over the centuries that it was always unreasonable to suppose the version that emerged from World War II would be final and irrevocable.

For 40 years, some rather undramatic changes took place in the West, as the E.C. steadily expanded its borders from six to nine, to 10, and then to 12 members. Now, however, the sudden collapse of the Iron Curtain has provoked an outpouring of speculation about the Continent's future economic and political pattern from the Atlantic to the Urals.

Newspapers and magazines are printing fanciful maps showing Europe in the year 2000 and beyond that sometimes seem to have little root in today's realities. Indeed, few European futurologists are actually redesigning national borders—although some are chiseling out new independent European states (Lithuania, Latvia, Estonia, the Ukraine, Russia?) from a disintegrating Soviet Union. The crystal ball-gazers are mostly rearranging the nations in new alliances and economic and political patterns that sometimes look like historical maps of the 17th or 18th centuries.

Some are predicting the re-emergence of a Central European grouping that would look remarkably like the old Austro-Hungarian Empire. Many see the E.C. extending to cover much more of the Continent, while others predict new divisions replacing the Iron Curtain.

Some people are looking at even wider horizons. Jacques Attali, the top aide to French President François Mitterrand and recently appointed President of the new London-based European Bank for Reconstruction and Development, has just published a book in which he sees the whole industrial world divided into two zones, one European and one Pacific. The first would group Europe and the Soviet Union; the second the United States, Japan, and a number of other Asian countries. Many Europeans would disagree with—and not welcome—the prospect of such a sharp separation from the United States.

Yet others have appointed themselves 21st-century historians and are already writing the story of how the E.C. became an economic and monetary union in the 1990s, with a federal central banking system and a single currency. To some European federalists, meanwhile, the timing for the creation of a United States of Europe could not have been better. Starting with the 12 existing E.C. mem-

Europe's future political and security structure is still only vaguely taking shape on political drawing boards.



THE CHANGING MAP OF EUROPE

New Political and Economic Patterns Emerge

bers, other European countries, perhaps ultimately all of them, could be progressively added—just as more American states were gradually incorporated into the Union.

Asked privately how many members the Community would have by the year 2000, one senior E.C. official quickly replied: "Twenty." In addition to the present 12 members, such a Community could perhaps include Austria, Switzerland, Sweden, Norway, currently members of the European Free Trade Association (EFTA), plus Hungary, Poland, Czechoslovakia, and Yugoslavia—not forgetting Malta and Cyprus.

So far, Turkey, Austria, and Malta have officially asked for membership, and Cyprus is expected to apply soon. East Germany will, of course, become part of the E.C., though not as a separate nation, when it is absorbed by West Germany under the unification process.

Other analysts talk of an E.C. of 25, 26, or even 27 members. To get to those numbers, one could hypothetically add Finland and Iceland (the two other EFTA members), Bulgaria, Romania, Turkey, parts of the Soviet Union in some shape or form, and—why not—Albania.

It is far from clear what kind of a Community that would be. As currently organized, the E.C.'s institutions could certainly not cope, and even the most dedicated European would shrink in hor-

ror at the thought of some 20 official languages. Also most of the existing members would not want the new members to dilute the closely integrated Community they hope to have achieved by the time new admissions would be considered in the mid-1990s.

One answer would be to keep most candidates for E.C. entry in some kind of associate status until they were ready—economically and politically—for full membership. A revamped EFTA, with close ties to the Community, could act as a waiting room for the East European countries, many experts believe.

But the talk in Europe is not all of growing unity. Some analysts believe that pressures generated by the upheavals in Eastern Europe will split the Community.

Laszlo Lang, Deputy Director of the Hungarian Institute of International Relations, warns that three competing blocs could emerge if a united Germany cannot be contained inside the Community. These would be the current E.C. minus Britain, which would drop out; a Central and Eastern Europe dominated by Germany; and what is left of the European parts of the Soviet Union. Some see a North-West European grouping including Britain, the Benelux countries, and Scandinavia. Others project a special relationship between Italy, Austria, Hungary, and Yugoslavia.

Several of the maps of the future show

an E.C. without Britain. Some of these also omit Ireland, for which there can be no justification other than to make the map look neater. For Ireland would stay in the E.C. even if Britain left. But there is absolutely no reason why Britain, or any other country, would want to leave the Community, and there is no provision for expelling recalcitrant members.

On the contrary, most countries will want to be inside the Community, where they can influence central decisions, rather than part of a looser free trade area, in which they could not. Most hypotheses assume that, whoever is in or out of the E.C., the whole of Europe will be a free trade zone or "single economic space."

E.C. officials in Brussels believe that the next steps to economic and monetary union will be taken by all 12 members. And in a recent report, a group called the Association for the Monetary Union of Europe set out some 60 specific recommendations that would lead to the adoption of the European Currency Unit (ECU)—an accounting unit defined as a "basket" of the E.C. currencies—as the single currency of the Community in 1997.

The French economic magazine *l'Expansion*, meanwhile, has a much more colorful version, reporting the introduction of the ECU as the common currency at a ceremony at the new residence of the German Chancellor in Berlin, on December 31, 1994. According to the magazine, the currency became the sole legal tender in the European Monetary Area (the Twelve minus Greece and Portugal) from January 2, 1995. The move, it said, was warmly welcomed by British Prime Minister Neil Kinnock (currently leader of the opposition Labor Party), President of the E.C. Commission Martin Bangemann (currently Vice President of the E.C. Commission responsible for Industry and the Internal Market), and Onno Ruding (a former Dutch Finance Minister) in his capacity as the first President of the European Federal Reserve System (Eurofed).

At that point, *L'Expansion* noted that Helmut Kohl was still Chancellor of Germany, and François Mitterrand President of France. But the French Prime Minister was Jacques Delors (the current President of the E.C. Commission), one of the main architects of the drive to economic and monetary union.—*Reginald Dale*

able view is that German unification should stimulate economic growth throughout the E.C. and add to pressures for economic and monetary union.

It is quite clear to everyone that Germany will be the keystone of the new architecture. If Germany cannot be harmoniously fitted in, the whole structure is unlikely to prove stable for very long. Says Pierre Lellouche, a leading French foreign policy expert: "Germany holds a veto on the future existence of both the E.C. and NATO. That is a new and major strategic reality."

And yet, if Germany is an essential part of the new architecture, it is also obvious to everyone, including the Germans, that the architecture is largely being designed to contain Germany. Most Germans say they actually welcome that.

For this very reason, many Europeans believe that the starting point must be to bind Germany as tightly as possible into the Western organizations of which it is already a member—the E.C. and NATO.

Also, at least in the view of the leaders of the bigger European countries like Germany, France, Britain, and Italy, NATO must continue to function as a military alliance as long as any vestigial threat from the Soviet Union remains. With the collapse of the Warsaw Pact, NATO's official *raison d'être*, most people believe that the Western Alliance must develop into a more political and less military organization if it is to maintain public support. Some have even suggested that Eastern European countries—even the Soviet Union—could become members.

But that seems unlikely and—to most Western European Governments—undesirable. Most of the current Western allies will probably continue to want a forum of their own to maintain their 40-year-old and still special political and security relationships for some time to come.

Beyond that, plans for the new political edifice become more fuzzy. Some of the smaller Western countries—as well as Moscow and many East Europeans—would like the 35-member CSCE to take over from NATO and the crumbling Warsaw Pact as the main guarantor of Europe's security.

Certainly, the CSCE is likely to prove an important vault of the new architecture as a major forum for East-West political and security discussions. But most Western Governments would prefer to limit their role for the foreseeable future to areas such as monitoring troop movements and verifying arms control agreements.

Broadly speaking, those who would like to see a continued strong U.S. presence in Europe—the majority—favor keeping NATO alive and healthy, if in a modified, more "political" form. Those who see less need for, or desirability of, U.S. forces remaining in Europe tend to go for the CSCE solution. The overwhelming opinion both in Europe and in Washington, however, is that the size of U.S. forces in Europe will now rapidly decline anyway, for budgetary and political reasons. The challenge for the United States, and its friends in Europe, will be to work out how to maintain America's influence in Europe as its presence declines.

One way, first suggested by U.S. Secretary of State James A. Baker III last December, would be a new treaty between the United States and the European Community. As currently envisaged, that would probably cover trade and economic rather than security issues. And the E.C. will probably want to make more progress in constructing its own "architecture" before taking the matter further. But there will be pressures for the Europeans to play a greater part in their own security, perhaps by extending the E.C.'s competence into the defense area, as France and Germany have suggested—although it is far from clear what that would mean for NATO.

Until recently, any such thought would have been anathema to the E.C.'s one neutral member, Ireland, and to other neutral countries seeking membership, such as Austria. But with Europe no longer divided into two hostile armed camps, the whole concept of neutrality is likely to change. If there are no longer wars or even enemies, what will it mean to be neutral? And what, it will also be asked, will be the point of the British and French nuclear deterrents, both currently targeted at the Soviet Union?

While the architects are busy drawing up their blueprints, one of the main foundations of the new edifice may be crumbling. That is why both the United States and Western Europe see a common interest in preventing the collapse of the Soviet Union—and of President Mikhail Gorbachev—before the new architecture can be put into place. **E**

It is quite clear to everyone that Germany will be the keystone of the new architecture.



Reginald Dale is Economic and Financial Editor of the *International Herald Tribune* and a contributing editor to *Europe*.

Central Europe: Potential for Prosperity

*But First They Must Conquer
Their Past*

RICHARD C. LONGWORTH

I ONCE LAMENTED TO AN ELDERLY HUNGARIAN friend that I was born too late to know the singular civilization of Central Europe before the war and communism swept it away. He waved away my sighs. "It's all here now, just as it was," he said. "The cafés, the music, the women, the color, the wit, the inequality, the anti-Semitism, the corruption. It's all come back. Hungary is Hungary."

And Central Europe is Central Europe. With the immediate past receding, an older past emerges, as it did first in Hungary and is now doing everywhere else. What was hidden never really died. Communism robbed the area of 40 years; but if it built little, it also destroyed little. History is not repeating itself so much as it is reviving, fully formed or deformed, like one of those Siberian mammoths that the Russians are always finding preserved in the permafrost.

First, a word about Central Europe. For years, we called it Eastern Europe, because Europe was split into two—our half, Western and American-led, and their half, Eastern and Soviet-dominated. Today, *Eastern* Europe means the Soviet Union east of the Urals, while *Central* Europe comprises the countries that have shaken off Soviet rule and are trying to rebuild their societies. Some day, with luck, we will be able to talk about Europe—just Europe.

Until World War II, nationalistic hatreds and the struggle for scarce resources and land (*Lebensraum*) pockmarked all of Europe, not just the East. Hitler struck west—into the Rhineland—before he struck east. But in the postwar years, the nations of Western Europe buried these rivalries in a cooperative creation of prosperity called the



As Eastern Europe rebuilds, it becomes clear that communism only hid the region's hopes, values, and rivalries. Above: Budapest cafe; haymaking in Poland.



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European Community.

It is possible that the Western rivalries are buried forever. Although the French may not actually like the Germans, they will not go to war against them, for the simple reason that there now is enough of everything to go around, and they know that happy state will last only so long as they work together. This is the Community's triumph, and it is an epochal one.

The Central Europeans experienced nothing like that. Communism also submerged the old nationalisms, but beneath a lid of brotherhood that was as flimsy as it was phony. Now the lid is off, and old rivalries are bursting forth—between



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To overcome past differences, Vaclav Havel (on a state visit to Germany in January) insists on neighborly cooperation.

Czech and Slovak, between Bulgarian and Turk, between Hungarian and Romanian—because they have not been replaced by something of value, as they were in the West. Nationalism breeds in poverty as surely as mosquitoes breed in swamp water, and Central Europe today is a poor place, with not enough to go around. It is not a community, much less a European Community. The priority now is to make it one.

But history did not begin in 1945. Throughout the centuries, Central Europe has acted as a breakwater, in historian Hugh Seton-Watson's metaphor, absorbing the waves of Eastern invasions and leaving Western Europe dry and safe to develop its remarkable civilization. This repeated marauding by khan, bey, and commissar has left its mark.

"Central Europe is a kingdom of the spirit," Timothy Garton Ash, perhaps the most acute observer of the region, has written. It is "a forest of historical complexity . . . a territory where peoples, cultures, languages are fantastically intertwined, where every place has several names and men change their citizenship as often as their shoes, an enchanted wood full of wizards and witches, but one that bears over its entrance the words: 'Abandon all hope, ye who enter here, of ever again seeing the wood for the trees.'"

With its thirst to rejoin the Western world, its intelligent people and willing work force, its opportunities for investment and clean slate for nation building, Central Europe has more potential for future prosperity than any region on earth. But its most long-sighted leaders know they must conquer the past as thoroughly as Western Europe has. Czechoslovakia's President, Vaclav Havel, in

particular, has preached the need for cooperation with his nation's neighbors. In one of his first speeches, Havel, whose nation was invaded by Hitler, asked for forgiveness for the non-communist Czechoslovakia's expulsion of Sudeten Germans just after World War II. Not all this has gone down well with Czechoslovaks themselves, who have expended

valuable energy since last November squabbling over whether the name of their country should be hyphenated, to soothe Slovak sensibilities.

Like the humanity exemplified by Havel, these darker vestiges of the Central European legacy have sprouted like weeds in the communist wreckage. The fighting in Tirgu Mures, Romania, and Kosovo, Yugoslavia, the debate over Czechoslovakia's name, and Poland's fears for the sanctity of its frontiers are just some of the symptoms of hereditary suspicion in a region where "neighbor" has often been synonymous with "enemy."

Must these weeds prevail? No more, surely, than postwar Western Europe was doomed to fall back into warfare. There is more than excitement and sheer joy throughout most of Central Europe at the escape from Soviet rule. The more northern countries have industrial and commercial traditions that were stunted but not uprooted, by communism. Rich cultures, ancient universities, devotion to learning, vivid inventiveness, and powerful ambitions have also remained in abundance.

Indeed, these elements were always there, even during Eastern Europe's dark years. Then, however, the culture focused on the deepest learning in areas immune from Party prying. It is no accident, for example, that some of the post-communist leaders are emerging from such "non-political" fields as musicology. In Europe's eastern half, the energy that Westerners devoted to public life was turned inward toward cultivation of intense friendships and private conversation. Now there is a genuine fear that, as public life in the East once more becomes rewarding, private ties will weaken, as

they have in the West. Moreover, inventiveness and ambition, squashed in the East, have enriched those Western nations that have received immigrants from Poland, Czechoslovakia or, indeed, Russia. The worry that 40 years of communism exterminated initiative and the work ethic is refuted by the Slovaks and Slovenes who rediscover these virtues the minute they hit the West.

Central Europe, of course, is no monolith. The changes will vary from one country to another, with the past once again weighing on the future. At the moment, the best chances for success seem to belong to the more Western-looking nations of the former Hapsburg empire—Poland, Czechoslovakia, and Hungary. All have, or probably soon will have, Christian Democratic forms of government. All crave E.C. membership; most will probably soon have associate membership, and full membership for Hungary and Czechoslovakia is almost certain by the end of the century. All are open to investment and will know what to do with it. All know that the creation of new economies will bring unemployment, inflation, and other hardships, but seem to have the political stamina to deal with them. Poland has launched a drastic economic reform program, and the other two, after flirting with a "third-way" economics between socialism and capitalism, appear determined to adapt their economies to Western Europe as quickly as possible.

The rest of Central Europe consists of the Balkans, the residue of the Ottoman Empire. Except for hardworking Bulgaria, the prospects for this region are dimmer. Poor, brutalized, benighted Romania has virtually no economy and no modern traditions with which to build one. Yugoslavia could break up, with Slovenia and Croatia (again, once colonies of the Hapsburgs) moving toward the West, while the other republics, including Serbia, rejoin their Orthodox, Ottoman heritage. If the E.C. is to form links with the Balkans, the key player will be Greece, its only Balkan member.

The passage will be rough for all the Central Europeans. The West's willingness to help is evident. Perhaps the Community's most useful role will be not as bankroller, but as an example of the rewards to be gained from conquering history. €

Richard C. Longworth is the chief European correspondent for *The Chicago Tribune*. His article, "Hungary Seems Western Already," appeared in *Europe's* June 1990 issue.

America's Commitment to Europe

*From the Marshall Plan
Through the 1990s*

BARRY D. WOOD



The Berlin Wall, which went up in 1961 and came down in 1989, was the most graphic symbol of the cold war that divided Europe into East and West.

THE REMARKABLY CORDIAL BUSH-Gorbachev summit in Washington, with its productive accords on trade, weapons reduction, and continued dialogue, is graphic evidence that—as these leaders profess—the cold war is over. In Western Europe, the huge array of armaments and military forces led by the United States seems certain to shrink in the face of the diminished threat from the East. Institutions—particularly the North Atlantic Treaty Organization (NATO)—are likely to be redefined as Germany unites. And the Atlantic partnership, anchored on the twin pillars of economic cooperation and NATO's collective security, is bound to be tested by the fallout from the collapse of communism in Eastern Europe.

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U.S. COMMITMENT

There will be those who argue that the end of the cold war means an end to America's job in Europe and a withdrawal of U.S. forces. That appeal may sound loudest at home in light of budgetary constraints and evidence of public fatigue with a global defense burden. But it may be that, just as America has played a vital part in promoting Western European unity since 1945, it has an equally important, if less dominant, role to play in the future.

America won its stripes with Europeans in 1947 with the unprecedented generosity of the Marshall Plan for reconstruction and its decisive response to Stalin's blockade of Berlin a year later. In their biography of Jean Monnet, French authors Serge and Merry Bromberger wrote that the unity of the West was achieved amid the anguished confronta-

tion of the 300-day Berlin air lift: "For the first time in history, the victors, far from demanding spoils from the defeated peoples, fed them, and offered them aid."

By requiring that the recipients formulate coordinated procedures for distributing and using aid dollars, the Marshall Plan was the stimulus for the creation of Europe's first post-war multilateral agency, the Organization for European Economic Cooperation (OEEC). Inspired by Marshall and Monnet, it was the forum through which the French, Germans, Italians, and smaller states parceled out the Marshall aid. The 1948 U.S. Economic Cooperation Act authorizing Marshall aid enshrined the concept of cooperation, stating that the advantages enjoyed by the United States "through the existence of a large domestic market with no internal trade barriers" could also accrue to

the countries of Europe.

The Paris-based OEEC, comprising 16 war-shattered European nations and headed by Monnet aide Robert Marjolin, was largely successful in promoting free trade, comparing national economic policies, and establishing a payments union for settling intra-European debts. In 1960, the reconstruction task completed, the OEEC recast itself into the 20-nation Organization for Economic Cooperation and Development, and in 1964 expanded its membership to include Japan.

Monnet, the cognac baron and father of the E.C., was drawn to America. A frequent visitor to the United States as early as the 1920s, Monnet liked the Americans and their can-do spirit and enthusiasm. He openly credited the United States with being his inspiration for a unified Europe, and recalled that George



Will History Repeat Itself?

As E.C. governments ponder the far-reaching implications of future political union, it is useful to recall that the idea of political union almost became reality during World War II.

Fifty years ago, in June 1940, with France prostrate after the onslaught of Hitler's "Blitzkrieg," French and British officials in London persuaded Winston Churchill to make a dramatic last-minute attempt to keep the collapsing French Government from suing for peace. The device—which Churchill described as "a new fact of a vivid and stimulating nature"—was a declaration of indissoluble union between the French and British people. Drafted in just two days by a small group that included both Charles de Gaulle and Jean Monnet, the declaration was delivered to French Prime Minister Paul Reynaud in Bordeaux on June 16, 1940.

Far from bolstering the resolve of the French Government, the visionary appeal had quite the opposite effect, however. Reynaud's cabinet contemptuously rejected Churchill's gesture as a perfidious British scheme to put France in tutelage, and made peace with Hitler the next day. Churchill wrote in his memoirs: "Rarely has so generous a proposal

encountered such a hostile reception."

The text of the Declaration of Union: "At this most fateful moment in the history of the modern world, the Governments of the United Kingdom and the French Republic make this declaration of indissoluble union and unyielding resolution in their common defense of justice and freedom against subjection to a system that reduces mankind to a life of robots and slaves.

The two Governments declare that France and Great Britain shall no longer be two nations, but one Franco-British Union.

The constitution of the Union will provide for joint organs of defense, foreign, financial, and economic policies.

Every citizen of France will enjoy immediately citizenship of Great Britain; every British subject will become a citizen of France.

Both countries will share responsibility for the repair of the devastation of war, wherever it occurs in their territories, and the resources of both shall be equally, and as one, applied to that purpose.

During the war there shall be a single War Cabinet, and all the forces of Britain and France, whether on land, sea, or in



ILLUSTRATION BY TOM FOTY

the air, will be placed under its direction. It will govern from wherever it best can. The two Parliaments will be formally associated. The Nations of the British Empire are already forming new armies. France will keep her available forces in the field, on the sea, and in the air. The Union appeals to the United States to fortify the economic resources of the Allies, and to bring her powerful material aid to the common cause.

The Union will concentrate its whole energy against the power of the enemy, no matter where the battle may be.

And thus we shall conquer."—B.D.W.

Washington, in a letter to Lafayette, had been the first to speak of a United States of Europe. How regrettable, repeated Monnet in the 1950s and 1960s, that only Americans seemed capable of regarding Europe as a group of states—like their own country.

It was John F. Kennedy's Administration that gave a significant boost to the E.C. Commission in establishing its position as trade negotiator for member states. Worried that U.S. goods would face discriminatory treatment in an expanding common market, Kennedy launched the successful tariff reduction negotiations in the General Agreement on Tariffs and Trade. In 1962, he called for an "open commercial association between the United States and the European Community." He was also the first American leader to welcome an E.C. president (Walter Hallstein) to the White House as a head of government.

In January 1963, however, Kennedy's nemesis, Charles de Gaulle, knocked the pillars out of the young American's grand design of European-American economic and military cooperation. In a single stroke, the French President rejected Britain's entry into the common market on the grounds that it would undermine its European character and make it appear a "colossal Atlantic community under American domination and direction." At the same time, de Gaulle rejected U.S. calls for a coordinated Western nuclear defense policy, a move that would lead to French withdrawal from NATO's integrated command four years later.

In his June 1963 European visit, Kennedy spoke in idealistic terms of "a united Europe in an Atlantic partnership—an entity of interdependent parts, sharing equally both burdens and decisions." Formulating what has remained U.S. policy ever since, Kennedy said in Frankfurt that "the choice of paths to the unity of Europe is a choice which Europe must make . . . It is Europeans who are building Europe."

The trip culminated in the "Ich bin ein Berliner" speech, made in the shadow of the wall that had gone up two years earlier. It was a wild reception for the U.S. President, in which three-fifths of West Berlin's population were in the streets. Nearly three decades later, that speech remains the high-water point of European enthusiasm for the American presence on the Continent.

It is hard to imagine now, but in the late 1960s America was seen as having an unassailable economic lead over its European and Japanese competitors, who



The Berlin air lift of 1948.

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seemed doomed to permanent secondary status. As such, American economic prowess and the multinational organization of its largest corporations became a tremendous spur for joint European research and industrial cooperation. In his seminal 1967 book, *The American Challenge*, Jean Jacques Servan-Screiber lauded the Americans while worrying that their superbly managed firms would rob Europe of its industrial independence. The French magazine editor argued that Western Europe could avoid economic conquest only through wholesale emulation of U.S. methods of education, research, and—most of all—management.

In an argument that has been nearly reversed 20 years later, Servan-Screiber posited the view that the American business presence in Europe comprised the world's third-largest economy after the United States and the Soviet Union. The Brombergers wrote in 1968 that "American businessmen were the only 'Europeans.' Their companies knew no frontiers. Their passports were valid in all Western countries. They did not even need a visa . . . They were the only people in Europe who had a European mentality, since for them the frontiers were merely incidental. They were the only ones who piloted corporations the size of a continent in a market of 185 million people that was comparable to the American market. They were also the only ones with a currency that was valid in the six countries, that was convertible and a premium. Above all, they alone really saw the continent, which was invisible to the Frenchmen, Italians, and Germans because of their customs barriers and their age-old hostilities."

While America's commitment to Europe may never have been in doubt, there

have clearly been high and low points in the relationship. Horst Schulmann, a key aide to former West German Chancellor Helmut Schmidt in the 1970s and now head of the Institute of International Finance in Washington, D.C., identifies 1974, Henry Kissinger's "year of Europe," as one such low point. "His idea," says Schulmann, "was an unequal partnership in which Europe was the regional power and America the global power." Another low point was 1982, when former President Ronald Reagan and the Western Europeans jostled over the now nearly forgotten Yamal gas pipeline, which, the Americans argued, could make Europe overly dependent on Soviet energy. Relations were also acrimonious, and European public opinion toward the United States was perhaps at its lowest ebb, in the run-up to the NATO summit the same year, in which it was agreed to deploy new short-range American missiles in West Germany.

But Alfred Kingon, Reagan's Ambassador to the Community from 1987–89, argues that, in retrospect, it was Reagan's military buildup that forced the Russians to the negotiating table and opened the way for Gorbachev's *perestroika* and the successful efforts to achieve arms reductions. Kingon sees a commercial treaty as the next step in the U.S.-E.C. relationship. America, he says, is likely to remain at the forefront of promoting European unity and accepting the role of Community-wide institutions. "The unification process is speeding up," he says, "and the United States has always supported integration and will continue to do so. "Scratch an American," says Kingon, "and you've got a European. And for them we remain a model and an example."

But all agree that NATO is the real linchpin of the U.S.-European relationship. As a voluntary and far from static association of member governments, there is likely to be ample room for evolution—perhaps into non-military areas—within its structure. NATO and its future are likely to dominate the news in the months ahead.

As German unification looms—along with fears of just what that portends—there are many calls for a continuing U.S. presence in Europe as a counterweight to a resurgent Germany. It is, says one official, as though Europe is moving toward a broad acceptance that a U.S. presence on the Continent is both very useful and very necessary for the indefinite future. **€**

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Foreign Ministers on the New Architecture of Europe

In his speech in Berlin last December, U.S. Secretary of State James A. Baker III affirmed U.S. support for the E.C. and the restructuring of Europe in light of the unprecedented events in Eastern Europe.

“As Europe changes, the instruments for Western cooperation must adapt. Working together, we must design and gradually put into place a new architecture for a new era. This new architecture must have a place for the old foundations and structures that remain valuable—like NATO—while recognizing that they can also serve new collective purposes. The new architecture must continue the construction of institutions—like the E.C.—that can help draw together the West while also serving as an open door to the East. And the new architecture must build up frameworks—like the CSCE process—that can overcome the division in Europe and bridge the Atlantic Ocean.”

—Excerpted from James A. Baker's speech, entitled "A New Europe, A New Atlanticism: Architecture for a New Era," in Berlin on December 12, 1989

On July 1, 1990, Italy took over the presidency of the E.C. for six months. Italy's Minister of Foreign Affairs, Gianni de Michelis, who has been outspoken in his vision of Europe's future, says the following about Europe's new design:

“The design of the new European architecture . . . consists of three concentric circles. The first is the E.C. itself, the most homogenous circle, moving toward political union. The Europe of the Twelve will play a central role in guiding the transformation of the Continent. The second circle consists of the Community, EFTA countries, and the Central and Eastern European countries. All of these countries will be developing economic associations according to the models designed by the E.C. Commission. The last concentric circle embraces Europe in the political sense, the Europe that stretches from San Francisco to Vladivostok. This includes the United States and Canada, on the one hand, and the Soviet Union, including its Asian dimension, on the other.”

—Excerpted from: "Foreign Policy," Summer 1990: Number 79

Frans H.J.J. Andriessen, Vice-President of the Commission of the European Communities, responsible for External Relations and Trade.

—Excerpted from a speech at Harvard University, April 25, 1990.

“It will be clear that . . . the European Community will be one of the pillars in the building of a greater Europe . . . This cannot be built without the direct participation of the United States . . . Europe is rediscovering its true self, overcoming the artificial walls and the boundaries of the post-Yalta arrangements. The era dominated by the Second World War has come to an end . . . The era under a shadow of the wars is now over. Freedom in Central and Eastern Europe is increasingly becoming the new reality, the changes are irreversible. The United States and Europe are inextricably linked together.”

A Future Scenario?

LIONEL BARBER



WILLIAM ALLEN

*U.S.-E.C. Relations in the
Year 2000
A Fantasy of the Future*

PRESIDENT JAMES A. BAKER III WAS watching Cable News Network in the Oval Office when the video conference call came through from Berlin. The President leaned forward and pressed the red visual display button. Sure enough, it was the familiar face of All-German Chancellor Karsten Voigt.

Baker let loose one of his steamier Texas expletives. Little more than five months remained until the November election, and his approval rating was heading south. The economy was softening, the Gramm-Rudman-Dole deficit reduction targets were proving as elusive as ever, and last week's budget summit with House Speaker Richard Gephardt had ended in recrimination. Right now, the last thing Baker needed was bad news

from abroad.

The problem was Europe, or, more precisely, Germany. For several months, Voigt, along with his Foreign Minister, Hans-Dietrich Genscher, had been promoting the concept of a European Defense Union (EDU) to replace the refashioned NATO alliance. The idea was not new (it first surfaced in 1990 under the auspices of French President François Mitterrand), but it was nonetheless trou-

U.S.-E.C. RELATIONS

blesome.

The Voigt-Genscher concept (or was it Genscher-Voigt?) envisaged progressively merging French and German military planning and security policies as the first step toward a "New European Defense Order." Defensive in nature, the EDU alliance would embrace not only the 12 E.C. members but also the newly democratic members of the defunct Warsaw Pact: Czechoslovakia, Hungary, and Poland.

The EDU was rapidly gaining currency in Europe, and picking up support in the U.S. Congress. Senator Pat Schroeder of Colorado, writing in *The New York Times* op-ed columns, called it "a Harvard Business School case study in burden sharing." Others noted with enthusiasm that the EDU would create an all-European army, enabling the United States to cut its forces on the Continent from the current level of 95,000 to 30,000 troops, at a saving of billions of dollars.

Ah yes, thought Baker, but the EDU concept poses the same problems in the year 2000 as it did in 1990, when Mitterrand—with the tacit approval of then German Chancellor Helmut Kohl—had floated a similar idea. Then as now, the aim was to endow the E.C. with an ill-fitting security role at the expense of the NATO alliance—and to preserve Franco-German pre-eminence on the Continent. The question remained: Where did that put the United States?

Throughout 1990, Baker, along with his friend, former President George Bush, had been plagued by a recurring nightmare: that the E.C.'s drive for closer political and economic integration would weaken or exclude the U.S. presence in Europe, fostering a resurgence of isolationism at home, the end of America's global role, and a return to the fateful conditions that had helped to ignite two world wars.

With a hint of nostalgia, Baker recalled how he and George had responded. It had been, in essence, a two-tier approach: full public support for European integration and the 1992 single market, while quietly building as many bridges as possible to the Continent as a "reinsurance policy," just in case the European drawbridge were to be raised in the future.

The Baker-Bush method (or was it Bush-Baker?) had been to avoid staking too many chips on any single bet. No one knew exactly which institutional links would grow stronger, though from Washington's point of view two goals were paramount: preserving the tested NATO

alliance in some form and guaranteeing that U.S. business would not face discrimination from a hostile, integrated E.C. trading bloc.

On NATO, much energy had been devoted to reshaping the organization's strategy, reducing the weaponry and the size of forces in West Germany, and creating new political missions for the alliance. At the same time, the Bush Administration had worked to develop closer institutional links with the E.C. through

In the early 1990s, the Bush Administration worked to develop closer institutional links with the E.C.

regular high-level ministerial meetings covering trade and other major issues. The Bush Administration had also lent guarded support for expanding the role of the 35-nation Conference on Security and Cooperation in Europe (CSCE).

Baker recalled how, 10 years ago, everyone had talked about using the CSCE as the designated vehicle for a new pan-European security system. That group had seemed a sound choice because it was a ready-made East-West forum that had the advantage of including not only the Soviet Union but also the United States, Canada, and those half-baked Europeans in the United Kingdom.

The disintegration of the Warsaw Pact in 1989—followed by the withdrawal of all Soviet forces from its Eastern European satellites (East Germany aside) by the end of 1992—had made the CSCE even more attractive because it offered the drifting Eastern Europeans a common home. (This was all the more important, it seemed, because the E.C., under the leadership of Jacques Delors, had made it clear that the pursuit of economic and political union would not allow E.C. membership to be extended in the near future to the emerging democracies in the East.)

Delors had been right all along. German unification had proven a significant distraction to E.C. political integration, while the CSCE had turned out to be a temple of temptations. Its self-appointed mission—to promote peace, social justice, and free elections from the Atlantic to beyond the Urals—had proven hope-

lessly unrealistic. Efforts to forge consensus among the 35 member nations had tested everyone's patience. Few could forget the 12-month tussle over where to locate the new CSCE secretariat (it ended up in Prague, a short stroll from President Vaclav Havel's attic apartment near Charles University).

It was, however, the fall of Mikhail Gorbachev in the summer of 1991 that had really saved the NATO alliance. People had simply failed to realize the degree to which the revolutions of 1989 would spread their virus into the Soviet Union, undermining the reformist leadership of Gorbachev. Despite his attempt to split the Communist Party and to build a new political base among the reformist elements in the KGB, the army, and the country at large, Gorbachev in the end had been overwhelmed by his failure to deliver economic reform and by the separatism first signaled by the breakaway Baltic states of Lithuania, Latvia, and Estonia.

The ensuing upheaval still has to play itself out, though it appears that the Soviet empire has shrunk to its core, Russia, which is now claiming special trading rights with its surrounding republics, most of whom in turn are pressing for associate membership of the European Community. What is clear in retrospect is that the turmoil in the Soviet Union—coupled with the regular outbreaks of ethnic violence in Albania, Bulgaria, Romania, and Yugoslavia—have forced the Pan-Europeans to rethink the CSCE and to focus more on NATO and the E.C., the tested institutions.

Nevertheless, in the year 2000, the tables were threatening to turn once more against the Americans. German unification was now complete, and the Berlin Government was starting to exert a far more powerful role, not only in its traditional area of influence in Eastern Europe but also in the West. Germany was pressing for the E.C. to agree to a timetable for membership of Czechoslovakia, Poland, Hungary, and the Baltic states. The European Defense Union, as proposed by Voigt and Genscher, seemed a necessary corrective to excessive German power on the Continent.

Baker reached for the German-English simultaneous translation scrambler before remembering that the Chancellor, like all those Europeans, spoke fluent English. Ah yes, he thought, but we will never speak the same language. €

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A United Germany in the New Europe

*Germans are Eager to Prove
their Dedication to Europe*



Many German leaders, including Foreign Minister Hans-Dietrich Genscher (here with Oskar Fischer, left, his former East German colleague), believe unification should create a European Germany, not a German Europe.

IN THESE TIMES OF BREATHTAKING DEVELOPments in Europe, one would need the proverbial crystal ball to foresee how the political and economic configuration of Europe will look 10 years from now.

CAROLA KAPS

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UNITED GERMANY

As everything seems in flux, numerous ideas are being kicked around. Nevertheless, as the Bush-Gorbachev Summit demonstrated, it appears far too early for world leaders to agree on the future security arrangements for Europe in general and a united Germany in particular. In this context, the key questions seem to be what the Germans want themselves and what the implications for Europe and the world would be if almost 80 million Germans united in one state. These questions are on the minds not only of Germany's European neighbors but are also raised on this side of the Atlantic. Although they reflect legitimate concerns about German unification and its consequences for Europe, answers will have to be vague for the time being to allow for enough flexibility to accommodate the rapid changes in Central and Eastern Europe.

Unperturbed by the surrounding uncertainties, German Chancellor Helmut Kohl and his indefatigable Foreign Minister, Hans-Dietrich Genscher, have quite successfully articulated Germany's priorities for the future course of events. With a broad brush they have painted their vision of Europe based on the "United States of Europe" and the 35-nation CSE process. This is currently the only element bridging the whole of Europe and simultaneously connecting it with the United States and Canada.

German leaders have repeatedly spoken of their desire to create a European Germany and not—as some fear—a German Europe. This quote from Thomas Mann is not to be taken lightly: The German Government believes deeply in the European integration process, as well as in a Germany rooted firmly in the Western Alliance. Germany has not for-

gotten that the United States undertook major efforts to defend Europe's freedom twice this century. America's presence in Europe—its standing side by side with Europe—assured peace and freedom after World War II. Germany, therefore, is and will remain a decisive advocate of close U.S.-European bonds. It will remain a member of NATO—albeit a changed one—as the newly emerging architecture of Europe calls for new forms of trans-Atlantic partnership.

It is equally important to point out that, as recent polls have shown, the German public has renewed its interest in European integration even though German unification seems only a breath away. For the German Government, the ultimate objective of European integration has always been political union. In that regard, the single market, as spelled out by the Single European Act, is considered a further step toward the much more ambitious goal of a politically united Europe.

The fear that the Germans' preoccupation with their own unification will slow the process of European integration has been proven wrong. On the contrary, German unification and the desire to anchor Germany firmly into the Community framework have accelerated this process. As the Germans themselves are eager to prove their dedication to Europe, Kohl and French President François Mitterrand have jointly taken the initiative to give fresh impetus to the common drive. On April 28, at the European Council in Dublin, they presented the other E.C. leaders with the proposals not only to speed up monetary union but also to commit themselves to political union by 1993. It is Germany's firm belief that the E.C. has to progress politically and economically in order to be able to become the center for a bigger pan-European Community governed by peace and prosperity.

Convinced that failure to do so would endanger the current state of integration, Germany is pushing its fellow members basically on two points: First, it is urging closing the gap between accelerating economic and monetary integration and the far less ambitious European political cooperation. Second, it is recommending reducing the E.C.'s "democratic deficit" by granting the European Parliament increased authority and perhaps inducing more transparency into the proceedings of the Council of Ministers. As Kohl pointed out on May 10 before the German Bundestag: "If we want European voters to participate in sufficient numbers in the 1994 elections to the Euro-

German Monetary Union

After less than three months of negotiations, a treaty signed on May 18 by the Finance Ministers of the two Germanys in Bonn established the historical monetary union that took effect on July 1, 1990.

This treaty merged the currencies and social security systems of the two countries into a single economy. The significance of this event clearly extends beyond the economics, however, and represents the first step on the road to political unification.

The basic terms of the currency union grant each East German a one-to-one exchange rate for the first 4,000 East German marks converted into West German marks, and a two-to-one conversion rate for amounts above that ceiling. Wages will also be converted on a one-to-one basis, pensions will be linked to wages, and state-owned bank debts will be transferred according to an exchange rate of two-to-one.

The monetary union is thus more far-reaching than just replacing currency. Essentially, the West German Bundesbank is now assuming control of the devastated East German economy as East Germany yields economic sovereignty, thereby eliminating its own East German central bank and independent economic planning. West Germany will also provide a new legal, fiscal, property, and social system.

Economists hope that the immediate cost of monetary union will gradually finance itself with increased tax revenues resulting

from projected growth. West German Chancellor Helmut Kohl foresees German unity fostering profitable supply- and demand-side growth, although this depends on the overall world economy and on his own ability to extend monetary stability to the expanded country.

The risk of rampant inflation clearly exists, but more from increased Government borrowing and investment as it rebuilds the East German economy than from excessive consumer spending. Despite short-term unemployment, however, the increased supply of skilled and mobile labor from East Germany will help relieve wage pressures, thereby reducing one cause of inflation. Furthermore, West Germany's 1989 current-account surplus of \$55 billion can ease the demand and inflationary pressures. West Germans do worry, though, that they will pay for economic unity with excessive tax increases or cuts in living standards.

According to Bundesbank President Karl-Otto Pöhl, East Germany's outdated industry makes competitiveness a serious problem. Productivity in East Germany is only 40 percent of that in West Germany, and East German officials predict that only 32 percent of East German companies will be able to survive independently, while 14 percent seem destined for bankruptcy. In addition, one-third of industrial employees most likely will lose their jobs, as will two-thirds of the agricultural workforce.



© JIM PICKERELL/FPG INTERNATIONAL

The Wall may be gone, but what will be the shape of the new Germany?

pean Parliament, we need to give the Parliament more power in order to legitimize the European Community." On the same occasion, he emphasized that the gradual handing over of sovereign rights could only be justified if the checks and balances of a democratic system were in working order; that is, if the European institutions were properly controlled by the European Parliament.

This call for "deepening" the current European integration process does not, however, imply German opposition to a "widening" of the Community. Germany remains firmly convinced that the E.C. has a special responsibility for the whole of Europe—from the Atlantic to the Urals. As Kohl pointed out in his recent State of the Union message: "During the coming years, it will be our task to enhance the political and economic partnership with our European neighbors in the East. We do not want to limit Europe to the Community of Twelve; we believe that everybody should participate like us to overcome the division of Europe."

This does not mean, however, that Bonn supports an instant enlargement of the Community, offering membership to all the newly emerging Eastern European democracies as well as to EFTA. Considering Austria's membership application, the German Government has made it very clear that there should be no further enlargement until after the single mar-

ket's implementation. Indeed, when calling for the realization of monetary and political union, Bonn—without being very explicit—has strongly emphasized the need to strengthen political and economic E.C. institutions before even considering new members. At the same time, Bonn is adamant that the E.C. should draw up association agreements with Eastern European countries as quickly as possible so as to offer them as much market access as possible, and the full scale of benefits that cooperation with Brussels can extend.

Borrowing from the image of concentric circles, the current thinking seems to evolve around a concept of European cooperation that binds together various schemes of European cooperation and integration, ranging from the Community to the CSCE.

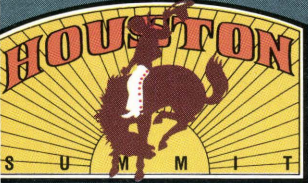
At the core of this model are the United States of Europe, with an as yet undefined membership, but with a common constitution and a common foreign and security policy. The second circle, the Confederation of European States, or European Economic Space, would encompass countries closely associated with the United States of Europe but fall short of a full-fledged membership. They would still form one common market, however, and would cooperate on foreign policy matters. These countries might have observer status at the political institutions

of the United States of Europe and work with them on questions concerning the environment or internal security.

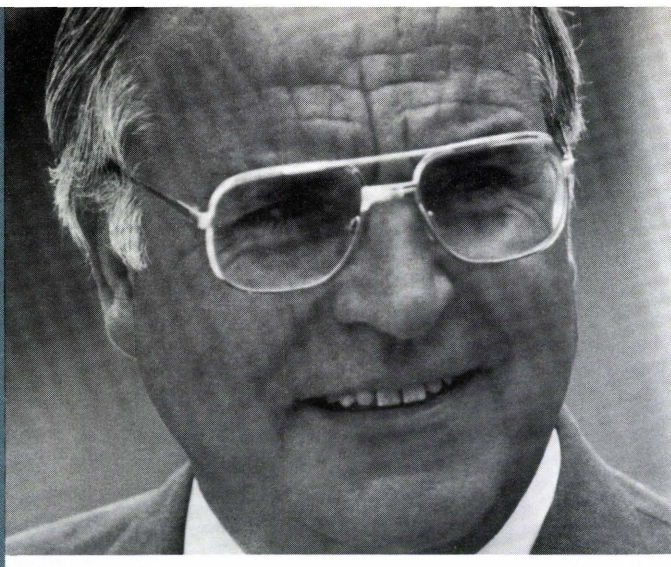
The third circle would comprise the Association of European States, whose membership would be open to the Eastern European countries as well as to those former EFTA members who prefer to stay apart from closer political cooperation. This association's main goal would be to develop close economic ties, starting perhaps with a free-trade zone that could be gradually transformed into a common market.

Finally, the fourth level would present the Common European House. As a pan-European peace order, this should group the Soviet Union as well as the United States and Canada under its umbrella. This European house would equal the CSCE process that, according to Genscher, would be the best foundation upon which to build the new pan-European peace structure. With such broad European institutions as an environment agency, a conflict management and verification center, and a secretariat, it could complement the other structures of political, economic, and security arrangements, and contribute to European stability. €

Carola Kaps is the Washington correspondent for the *Frankfurter Allgemeine Zeitung*.



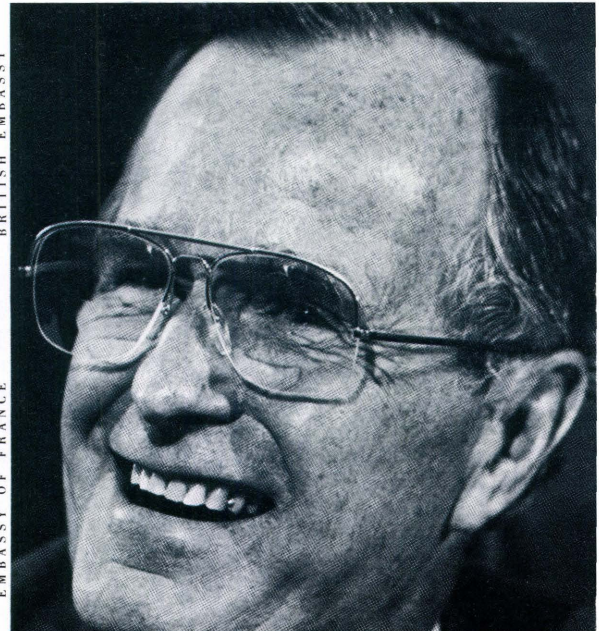
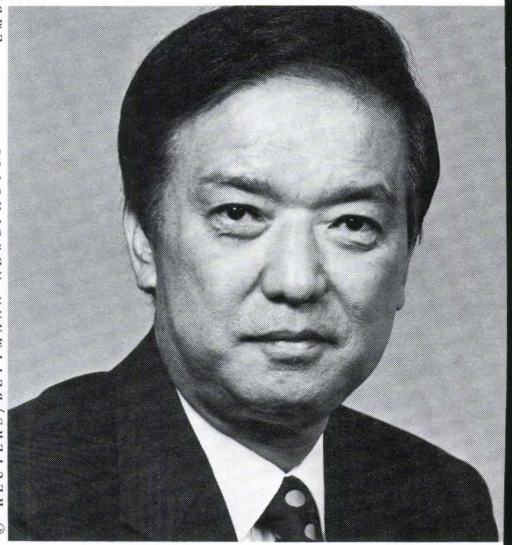
SUMMIT



EMBASSY OF GERMANY

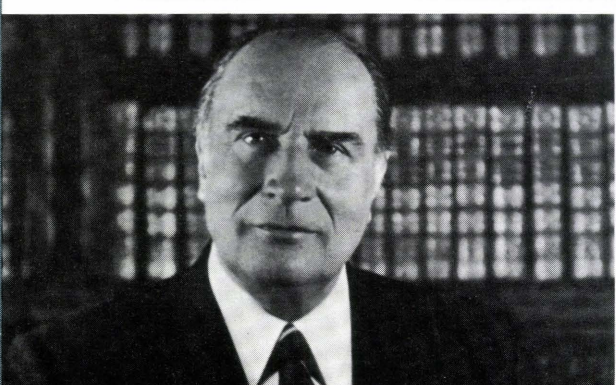


© REUTERS/BETTANN NEWSPHOTOS



BRITISH EMBASSY

EMBASSY OF FRANCE



For six of the eight attendees, this annual gathering has almost become a regular event. They are, clockwise from top left: West German Chancellor Helmut Kohl; E.C. Commission President Jacques Delors; this year's two "newcomers," Japan's Prime Minister Toshiki Kaifu and Italy's Prime Minister Giulio Andreotti; U.S. President George Bush; French President François Mitterrand; British Prime Minister Margaret Thatcher; and Canadian Prime Minister Brian Mulroney.

T H E NEW EUROPE

Agriculture, the Environment, and Trade Issues are Also on the Agenda

Houston, Texas, is the host city for the 1990 economic summit, the event that has brought together the leaders of the largest Western industrialized democracies every year since 1975. While the meeting in the Lone Star state cannot promise to rival the multimedia extravaganza celebrating the 200th anniversary of the French Revolution that accompanied last year's summit in Paris, there will be a get-acquainted social rodeo on the evening of July 8. After that Texas-style kickoff, the hard work will begin on the campus of Rice University on issues ranging from Eastern Europe to trade to the environment.

When the heads of state or government of the United States, Japan, West Germany, France, the United Kingdom, Italy, Canada, as well as the President of the E.C. Commission, sit down to talk in Houston, they will already know each other well. The United Kingdom's Margaret Thatcher, the summit's doyenne, has attended since 1979, France's François Mitterrand since 1981, West Germany's Helmut Kohl first came in 1983, while Canada's Prime Minister Brian Mulroney and the E.C.'s Jacques Delors made their debut in 1985. Even U.S. President George Bush, though attending only his second summit as leader, is well acquainted with his colleagues from his years as Vice President. Italy's Giulio Andreotti attended three summits in the 1970s, but this will be the first such gathering for Japan's Prime Minister Toshiki Kaifu.

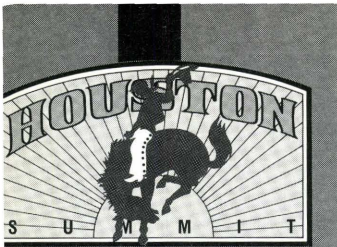
The summit idea has its origin in the 1971 breakdown of the Bretton Woods system of fixed exchange rates established after World War II, and in President Richard Nixon's subsequent decision to put a halt to the dollar's convertibility into gold. These events created a vacuum

in international economic cooperation and signaled the end of the U.S. role as global banker and economic policy chieftain.

Valéry Giscard d'Estaing, the French ex-Finance Minister elected President in 1974, proposed a meeting in Rambouillet, an old royal hunting retreat outside Paris, of the heads of the leading industrialized countries to launch a new form of economic policy coordination. Both more informal and more collegial than the old system, and befitting their newfound economic strength, the summits would give the Europeans and Japanese a seat at the table of policymaking on a par with the Americans.

The summits have developed their own distinctive style and language. The "heads"—of state, like Presidents Bush and Mitterrand, or of government, like Prime Minister Thatcher or Chancellor Kohl—only meet after the summit's agenda has been prepared by their "sherpas," or personal representatives. These high-level officials are so named because, much like the Nepalese guides who lead climbers up the slopes of the Himalayas, their task is to prepare the way for the leaders they will ultimately accompany to

P E T E R S. R A S H I S H



SUMMIT

the summit. Since 1981, the U.S. sherpa has as a rule been the Under-Secretary of State for Economic Affairs, while in Japan that role has gone to the Vice Minister of Foreign Affairs. The E.C. Commission's current sherpa is Pascal Lamy, Jacques Delors' Chief of Staff. This will be the valedictory summit for Jacques Attali, France's sherpa and Mitterrand's special adviser, before he starts his new job as President of the new London-based European Bank for Reconstruction and Development.

The talking points that the sherpas have been drawing up for their bosses this time center on Eastern Europe, trade issues, the environment, drugs, and third world debt and development.

Since last year's summit in Paris, when Eastern Europe first made its way onto the agenda, the Berlin Wall has fallen and democratic regimes have taken over in Poland, Hungary, Czechoslovakia, and East Germany. The summiters are likely to reaffirm their commitment to helping solidify Eastern Europe's political and economic achievements and set out ways in which the West can do its part in the future.

The heads will also treat the issue of promoting healthy market economies in the third world. Developing countries are concerned that the political spotlight now cast on Eastern Europe will cause them to be forgotten when priorities are drawn up for Western aid and investment. The summit will likely seek ways to ease the strains of this emerging "East-South" conflict for Western resources, including support for the Brady Plan of debt reduction.

Another key issue is international trade, in particular the current Uruguay Round of General Agreement on Tariffs and Trade (GATT) negotiations. These talks are scheduled to be concluded by the end of this year, but sticking points remain, especially in agriculture, where the United States has a different approach than the E.C. in removing subsidies to farmers. Better treatment of developing country exports, like textiles, as well as free trade in service sectors, like banking, will also be debated. There may also be some discussion of creating stronger dispute settlement mechanisms within the GATT to discourage countries from taking unilateral actions. Extending financial and technical assistance to the Soviet Union will also be debated.

Chief among the environmental issues under discussion will be global climate change, the so-called "greenhouse effect" caused by carbon dioxide emissions and tropical deforestation, and the deple-

tion of the ozone layer. In ongoing international negotiations on carbon dioxide emissions, the E.C. has been advocating a more aggressive approach than the United States and Japan, who are concerned that the costs of reducing carbon dioxide output could harm economic performance.

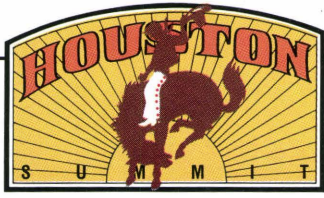
Finally, the topic of narcotics production, trafficking, and consumption, first broached at last year's summit, will reappear in Houston. The new cooperation, aimed at stopping the laundering of drug money is making headway and will be reaffirmed, while other measures to improve cooperation with other consuming countries, and with producing countries, will also be considered.

The summit, uniting as it does the leaders of the world's richest states, has attained the stature of media event par excellence. But it should really be seen as the high point of a year-long process of high-level consultations and meetings that starts with the interim committee meeting of the International Monetary Fund (IMF) in the spring, continues with the Ministerial meeting of the 24-member Organization for Economic Cooperation and Development (OECD) in late May or early June, and concludes with the annual meetings of the IMF and World Bank in September. This year, the GATT round of trade talks can be added to that series.

While the communiqué coming out of the OECD ministerial is usually a reliable guide to what will surface at the following summit, something is almost always left to chance. For instance, the decision to entrust the E.C. with the role of coordinator of all Western aid to Poland and Hungary followed a more or less impromptu suggestion by Kohl during the course of last July's Paris summit proceedings. The Americans, Canadians, and Japanese all endorsed this idea as appropriate recognition of the E.C.'s growing political stature on its way toward 1992.

If an unexpected proposal does come out of the Houston summit, it will most likely be decided upon during one of the many elaborate summit lunches or dinners, at which the leaders are alone without ministers or advisers, and can really thrash things out. For these few precious hours, the heads of state and government are truly at the summit of their profession. **E**

Peter S. Rashish, a Washington, D.C.-based writer and consultant, is a contributing editor to *Europe*. His most recent article, in the May 1990 issue, examined European direct investment in the United States.



*Texas Town Combines
Western Flavor with
Cosmopolitan Tastes.*

Houston Hoedown!

HOUSTON—AT AGE 154 A YOUNGSTER when compared to many European cities—is renowned for its friendliness, vivacity, and optimism. Look even closer and you'll discover a pragmatic core, a resilient spirit, and an energizing environment.



ALL PHOTOS COURTESY GREATER HOUSTON PARTNERSHIP

Once dependent on the oil industry, Houston has now diversified its economic base. Here: The city's skyline.

GAIL RICKEY

In truth, Houston personifies the American Dream. It's a place where the lowly can become great, the dreamer can fulfill dreams, and the person who says "I think I can" has a wide open stage on which to try out.

"Wide open" describes the city as a whole, from its landscape to its attitude. Houston is huge, sprawling over 560 square miles and encompassing piney woods and prairies, bayous, and near-coastal terrain. Undeniably, Houston is open to newcomers (hundreds of thou-

sands of Houstonians were once new to the city themselves), new structures, and new ways of doing things. In Houston, "it's never been done before" is a compliment, not a criticism, and "tradition" may refer to something that happened last year.

Indeed, Houston glistens with newness. An "old" building may have been built 60 years ago, and "new" often means today. But gone, hopefully forever, are the frenetic boom days of the 1970s, when Houston prospered—and suffered—from too much too fast. During those times, the city's infrastructure, strained by unbridled growth, couldn't keep up, much less be prepared for the future. Quality of life issues, in general, took a back seat to development. Coupled with the city's unprecedented growth came get-rich-quickers, lured by the chance of easy profits. As a whole, the city took on an outer gloss without an inner gleam.

With the sudden drop of oil prices in 1982, Houston's economy stalled, then faltered, affecting the life of virtually every Houstonian. Stunned, the city became introspective, examining its strengths and weaknesses.

As a result of adversity, Houston has emerged stronger than ever. The city has actively sought to diversify its economy so that its fortunes will never again rise and fall with that of a single industry. Sectors of the city's economic base independent of the energy field, which in

HOUSTON HOEDOWN

1981 constituted only 15.8 percent, have grown to more than 39 percent, accounting for nearly two-thirds of growth in the base in the last two years. Conversely, oil and gas extraction, pipeline transporting, and oil field equipment manufacturing and wholesaling, which in 1982 represented 69 percent of the city's economic base jobs, have dropped to 43 percent.

In part, the city's diversification has stemmed from already strong components: the Port of Houston, the Texas Medical Center, and the Johnson Space Center.

- The Port of Houston ranks second in the United States in foreign trade tonnage and third in total tonnage. In 1989, more than 4,600 ships flying the flags of 70 countries called at the port.

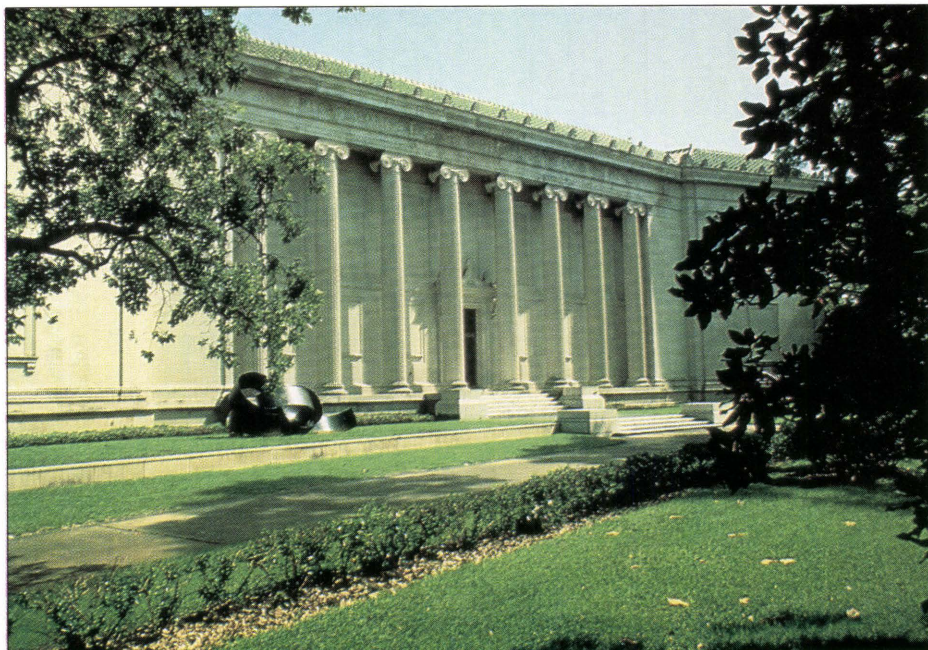
- Texas Medical Center, one of the largest medical centers in the world, has announced that between 1988-1990, projects totalling \$1.3 billion will be either completed or under way.

- The space industry gained impetus with McDonnell Douglas Corporation's announcement that it will establish an assembly and testing plant near the Johnson Space Center. Additionally, a major new visitor attraction, Space Center Houston, is scheduled to open in 1991. Developed in conjunction with NASA and the Johnson Space Center, the innovative new facility is designed by Walt Disney Imagineering.

Meanwhile, other industries are playing a large role in stimulating Houston's economy. Compaq Computer Corporation, one of the fastest-growing companies in the country, is having a major impact. So is the steel industry; last year, two steel companies announced plans to reopen facilities in Houston.

Houston has a cosmopolitan air. Regarded as Texas' most international city, it ranks third nationally in the number of foreign trade offices and fifth in foreign consulates. France opened the city's first consulate in 1924. Today, 59 foreign governments have Houston consular offices. The city ranks second in the nation in the number of banking institutions involved in international finance; its banking community includes 61 foreign banks representing 16 countries. More than 750 foreign firms are represented in Houston, and approximately 600 Houston companies have operations in a total of more than 100 countries.

Pre-dating Houston's economic diversification is the diversity of Houstonians themselves. Collectively, the city's populace has created a mosaic of neighborhoods and customs, arts and celebrations. The city's first settlers, seeking a land of



Houston is a culture-rich city. Above: The Museum of Fine Arts.

Houston, which attracts much European business and investment, is considered to be Texas' most international city.

opportunity, hailed from Europe as well as the United States.

For visitors, the city's diversity—both physical and cultural—produces a rich menu of attractions. If you want to kick up your heels and “Go Western,” Houston will be happy to oblige. But that's just the beginning. One can shop for haute couture fashions, go to the opera, enjoy a ball game at the Astrodome, ride a 19th-century-style train to Galveston, or jog along woodland trails in Memorial Park.

Notably, Houston is an arts-rich city. One of four U.S. cities with permanent companies in all of the performing arts (symphony, grand opera, ballet, and theater), it is also home to numerous museums and art galleries.

The Menil Collection Museum attracted worldwide attention with its 1988 opening. For years, art experts had labeled the private collection of Dominique and John de Menil as one of the greatest in the United States. For five decades, the de Menils collected more than 10,000 art objects, including paintings, sculptures, prints, photographs, and rare

books. Works range from Paleolithic times to the present, but focus on surrealism and other 20th-century art, Byzantine and medieval works, arts of tribal cultures, and antiquities.

Nearby, the Museum of Fine Arts, one of the largest art museums in the southwest, features works ranging from antiquity to the present. Outside the museum, the Cullen Sculpture Garden displays 19th- and 20th-century sculpture, with works by such artists as Auguste Rodin, Henri Matisse, Alexander Calder, Alberto Giacometti, Frank Stella, and Ellsworth Kelly.

For a different perspective, visit the Orange Show, a delightful folk art creation with terraces, pavilions, and displays. Designed and executed by an untrained artist who spent 25 years on the project, the Orange Show celebrates the spirit of creativity. €

Gail Rickey is a freelance writer in Houston.

HOT SPOTS



SELECTED HOUSTON SIGHTS

SPACE CITY

• **Johnson Space Center.** Self-guiding tours of exhibits in seven buildings scattered across NASA's campus-like facilities. Tour includes a visit to Mission Control, movies of space flights, and hands-on exhibits.

WAY OUT WEST

• **George Ranch.** A 475-acre living history ranch where cowboys rope, brand, and ride; a blacksmith practices his craft; and costumed docents lead tours through an 1890s home and a 1930s ranch house. Once the nucleus of one of southeast Texas' most successful ranches, this attraction offers visitors an accurate portrayal of ranch life. Located 20 miles southwest of Houston, off U.S. Highway 59.

SHOPPING EXTRAVAGANZA

A short distance from wherever you are in Houston, there's sure to be a shopping mall. Some of the best suburban malls include West Oaks, Sharpstown, Greenspoint, Willowbrook, Gulfgate, Deerbrook. The following three malls are more centrally located:

• **The Park.** Enclosed mall in downtown Houston, connected to The Four Seasons Hotel by skybridge. A good sampling of Houston shops, from Brooks Brothers to The Gap. Computers, books, jewelry, and food booths.

• **Galleria.** Inspired by the Galleria Vittorio Emanuele in Milan, Houston's Galleria debuted in 1970. The 300-plus shops include department stores (Neiman Marcus, Marshall Field's, and others), designer

fashion shops, boutiques, bookstores, sporting goods, arts, and antiques. In addition, there's an Olympic-size ice-skating rink, movie theaters, and numerous restaurants. Loop 610 at Westheimer.

• **Pavilion.** Ultra-fashion mall with lots of glitz and sparkle. From European designers to Legend Outfitters, Hermès of Paris, Saks Fifth Avenue, fine jewelry, art. Trendy restaurants, including Sam's Café, Sfuzzi, Café Express. 1800 Post Oak Boulevard.

TASTE OF TEXAS

Texas cuisine is an intermingling of flavors and cooking styles, from downhome favorites to nouvelle southwestern creations. Houston presents a mouth-watering menu of restaurant choices.

First, some local lingo:

• **Chili:** The official state dish, a bowl of chili, served up steaming hot, is coarse ground beef, spiced with chili peppers, cayenne, onion, and garlic. (As much as Texans like chili, they like boasting about their own recipe even more. Almost any weekend you can find chili wars by the side of the road, officially referred to as Chili Cook-offs.)

• **Longneck:** A long-necked bottle of cold brew.

• **Tex-Mex:** Texans' version of what they think Mexican food should taste like.

Now that you know the basics, here are some favored spots to dine, Texas-style.

BARBECUE

• **Goode Country Barbecue.** A slice of Texana amid city

lights; country music sets the tone.

• **Otto's.** Rustic shack where business executives gather for lunch; reportedly the President's favorite.

TEX-MEX

• **Ninfa's.** Houston's definition of Tex-Mex.

• **Pappasito's Cantina.** An ongoing fiesta.

SEAFOOD

• **Captain Benny's**

• **Pappas Seafood House**

STEAK HOUSES

• **Brenner's.** Excellent steaks in homey atmosphere.

• **Ruth's Chris.** Oil barons gather to feast on thick and juicy steaks, perhaps the most tender in all of Texas.

SOUTHWESTERN

• **Jack's on Woodway.** Creative combinations of southwestern flavors.

• **Deville.** Chef Robert McGrath has earned a reputation as one of the nation's most talented young chefs (one of three Texas chefs tapped to create the Summit's official dinner at the Museum of Fine Arts).

CREOLE COOKING

• **Alex Patout's**

• **Brennan's.** New Orleans flavor with Texas flair.

• **Treebeard's**

HOUSTON GOURMET

• **Café Annie.** Chef Robert Del Grande, an artist in food preparation, performs for the leaders at the Summit official dinner. Each dish is a work of art.

• **Charley's 517.** Continental menu and award-winning wine list.

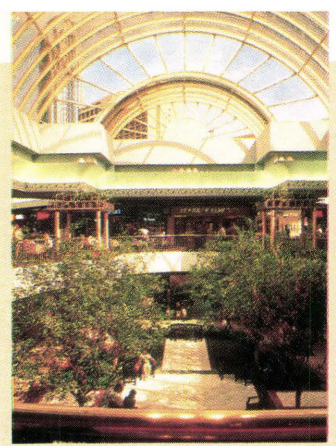
• **Rotisserie for Beef and Bird.** Steak to seafood, quail to wild boar, served in an upscale residential setting.

• **Tony's.** Top rated, top dollar; elegant sophistication; socialites on parade.

GOOD TIMES AT THE RODEO

What better place to whoop and holler (all in the name of experiencing Texas culture, of course) than at a rodeo. That's ROW-dee-o, in case your Texas-talk needs some brushing up.

First of all, you'll have more



There's something for everyone in Houston. Left: Rodeo; above: the Galleria shopping center.

fun if you dress western. Most folks wear jeans and western shirts. A few go Western-Fancy, from silk to silver, but simplicity is more in style. Boots are a downright basic part of the attire. Most typically, they're fashioned of leather, but you can find them made of elephant hide, alligator, ostrich, or even anteater. And to set it all off, wear a cowboy hat, choosing from a summer straw style or a year-round felt. Western wear shops in town will help you put it all together.

Now, on to the rodeo. Rodeos usually take place in an oval arena. The action starts with a grand parade on horseback. Then the competitions begin. Traditionally, rodeos are a place for cowboys and cowgirls to demonstrate their skills, and hopefully win cash awards. Some do it just for fun; others turn professional, touring the country on the rodeo circuit.

Typical rodeo events include bareback riding, saddle bronc riding, calf roping, barrel racing, and bullriding. Everybody likes to watch the calf scramble when a horde of calves and youngsters are set loose in the same ring. Never have you seen so much energy, both on the part of the would-be capturers and the sought-after animals. Indeed, the stakes are high, for, whoever lands a calf, gets to take one home.—G.R.

Your Gateway to 1992

A REPORT FROM THE NETHERLANDS FOREIGN INVESTMENT AGENCY

Climate for Investment Approaching 1992: Advantages to accessing the \$4 trillion unified European market via the Netherlands:

✂ LOCATION Holland is right in the center of Europe, with a pro-business attitude that makes it the Gateway to Europe.

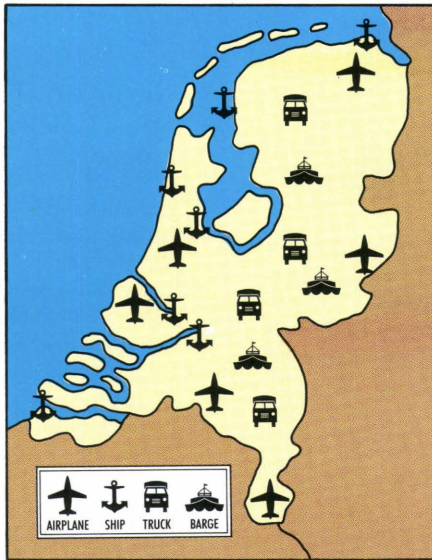
✂ DISTRIBUTION Schiphol Airport and the Ports of Rotterdam and Amsterdam are at the heart of one of the most admired distribution infrastructures in the world. Be your goods transported by water, road or air, be they high-tech, low-tech or non-tech, be they manufactured in Holland or brought in for export elsewhere, the trip is easier via Holland. An ultra-efficient customs procedure and series of bonded warehouses makes the country a virtually duty-free zone.

✂ TECHNOLOGY INFRASTRUCTURE Holland has the Continent's only deregulated telecom industry and its most highly developed telecom infrastructure, as well as outstanding R&D and training in other forms of information technology, medical technology and biotechnology.

✂ WORK FORCE The approximately 5,000 foreign companies that have invested in Holland are drawn by the cooperative attitude of Dutch workers. While such labor does not come cheap, hourly wages are offset by the highest worker productivity in the EC. Productivity is supported by a high standard of education, availability of managers and highly skilled workers to fill new jobs, and a multilingual workforce—two-thirds of whom speak two or more foreign languages.

✂ POLITICAL/SOCIAL STABILITY The Dutch government and social structure are conducive to long-term investment and a fine quality of life.

✂ FINANCIAL CLIMATE Foreign companies enjoy the same benefits as Dutch companies in Holland. The currency is stable, inflation is about the lowest in the EC, and there are no restrictions on the transfer of capital. An almost \$1.5 billion venture capital pool seeks out investments from abroad.



SOME FACTS ABOUT HOLLAND

- Working population: 6.2 million
- 1989 U.S. exports to Holland: \$11.4 billion
- 1989 U.S. imports from Holland: \$4.8 billion
- Port of Rotterdam: more than 290 million tons cargo handled in 1989, up almost 14% from 1987
- Share of cross-border road transport within the EC accounted for by Dutch haulers: over 25%
- About 1,500 U.S. firms invested in Holland
- Rate of return on U.S. investment 1984-1988: Higher than the EC average and one of the highest in the world—26%
- Corporate tax rate: 35% (40% on first Dfl 250,000 net profit)

THE NETHERLANDS FOREIGN INVESTMENT AGENCY, a division of the Dutch Ministry of Economic Affairs, offers free and comprehensive assistance to U.S. companies interested in establishing or expanding manufacturing, assembly, research and development, sales offices, headquarters and distribution facilities in the Netherlands. North American NFIA offices are located in New York, San Francisco, Los Angeles and Ottawa. NFIA staff spends most of its time visiting prospective investors, offering assistance with investment and marketing strategy formulation for the European market, and providing specific proposals with respect to an investment. The NFIA provides guidance through every step of the process, including site selection, identification of sources of capital, and introductions to key networks and suppliers in industry, academia and government.



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 5 1/4" diskette or 3 1/2" diskette for my IBM compatible PC with color graphics card.

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TEXAS

Last year, Texas took the Alamo across the Atlantic. This year, it's taking millions of dollars of new business, laying the foundation for growth into 1992 and beyond.

While the "Alamo" that visited London—a Texas-size tourism invitation—was only a booth-style replica of the famed landmark, new E.C. trade and investment is very real. Not only is the Texas economy regaining its strength after the mid-1980s drop in oil prices, but the opportunities presented by an integrated Europe are spurring companies that have never ventured out of the United States to enter the European marketplace.

Bill Taylor, Texas Department of Commerce Executive Director, says: "Texas businesses are realizing that a whole new market is out there—320 million potential customers." With all that the state has to offer, including high-tech products, Texas is well poised to multiply its trade with the E.C., he emphasizes.

Due to the resurgence of the state's economy, investors in Europe and the rest of the world have renewed interest in Texas, reports Rob Scolnic, a partner in Ernst & Young. Concurrently, Texan investors, anticipating 1992, want to do business in the E.C., and are also showing a strong interest in Eastern Europe, he observes.

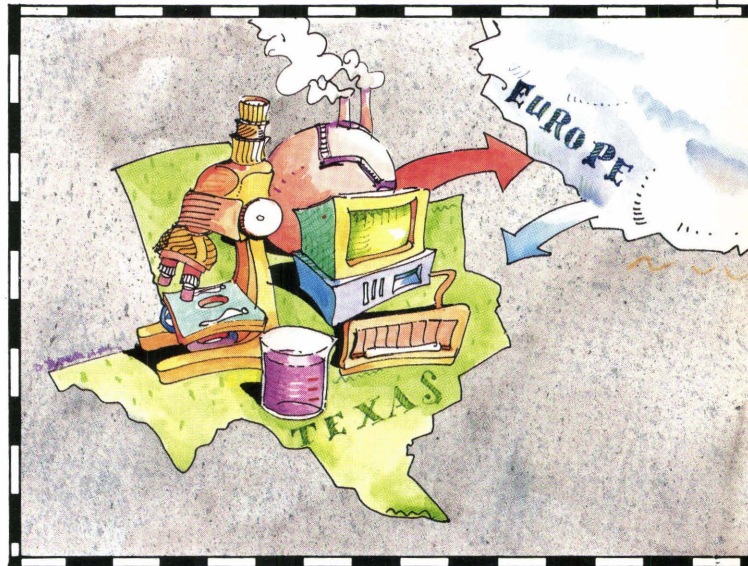
The E.C. represents Texas' second-largest export market (neighboring Mexico is number one). Last year, exports from Texas to the E.C. accounted for nearly \$5 billion, or 15.8 percent, of the state's overall exporting. Taylor predicts that percentage will increase with the new emphasis on European trade.

Texas' top E.C. market is the United Kingdom (\$1.3 billion of exports in 1989), followed by the Netherlands (\$942 million). Leading exports to the E.C. include industrial and commercial machinery and computer equipment, chemicals and allied products, and electric and electronic equipment.

On the flip side of the coin, Texas ranked first among U.S. states in the dollar value (gross property, plant, and equipment) of foreign direct investment (FDI) by European affiliates (1987 figures). In 1988, the FDI book value of European affiliates in Texas was \$24 billion, or 60 percent of the total FDI in the state.

Texas has an excellent infrastructure to handle European trade. The Port of Houston—the nation's second-largest in foreign trade tonnage—is the state's gateway to the world. Based on the combined cargo value of imports and exports, West Germany was the port's second-ranked trading partner in 1989, followed by the United Kingdom. Additional Texas ports include Corpus Christi (ranking sixth nationally in foreign tonnage), and Texas City (ranking tenth).

Dallas Fort Worth International Airport, the second-largest U.S. airport in terms of passenger traffic, offers direct service to 13 European cities. British Airways and Lufthansa are among the



Texas Aggressively Promotes Trade with Europe

YVONNE BUCHANAN

airport's 21 carriers. Houston Intercontinental Airport is served by four European carriers—Air France, British Airways, KLM, and Lufthansa. Recently, Houston Intercontinental opened a new \$95-million, 12-gate terminal dedicated to international flights.

Oil and gas introduced many Texans to an international marketplace several generations ago. Says Bill Macha, president of a company that manufactures instrumentation used in seismic oilfield exploration: "The nature of our equipment has made the world our marketplace." Macha International's biggest customers are in Great Britain and France, with others in West Germany, Italy, and Spain.

Today, new industries account for an impressive portion of the state's exports to Europe. For example, Houston-based Compaq Computer Inc., reporting 1989 revenues of \$2.9 billion, says that European sales accounted for more than \$1

•• Exports to the E.C. ••

Comparing 1989 to 1988, exports to Ireland were up 61.9 percent; Denmark, up 35.6 percent, Belgium and Luxembourg, up 26.8 percent; Greece, up 26 percent, United Kingdom up 12.5 percent; Netherlands, up 8.2 percent; France, up 4 percent; and Germany up 3.6 percent. Exports to Portugal remained constant, while those to Italy and Spain dropped 5 percent.—G.R.

billion of its total last year. Compaq, founded only eight years ago, is one of the nation's fastest-growing companies. Of its 17 wholly owned subsidiaries, 13 are in Western Europe and one in the United Kingdom.

Some Texas businesses look to Europe for mutual trade. "Both sides benefit," says C. Jim Stewart III, vice president of marketing for Stewart & Stevenson Services, Inc., a company that packages turbine generator systems, manufactures airline ground support equipment, and produces oilfield control systems to a worldwide marketplace. Not only does his company market to the E.C., but it utilizes European technology in the company's product development.

Two years ago, Stewart & Stevenson installed the company's first European turbine power generation package, selling it to N.V. PNEM in the Netherlands. Realizing the potential in the European

marketplace for co-generation systems, Stewart & Stevenson formed a joint venture with Thomssen in Holland to sell packaged turbine generation systems. "Thomssen has tremendous respect in the E.C., and we have the designs," says Stewart. "We're taking our technology and marrying it with their manufacturing capabilities."

Conversely, Stewart & Stevenson utilizes European technology to create new products. Under a licensing agreement with a U.K. firm, the Texas-based company is manufacturing all-terrain vehicles that it sells in the United States, Canada, and the Middle East. Similarly, it produces an aircraft de-icing unit developed from a licensing agreement with G. Vestergaard Co. in Denmark, and snowblowing equipment developed from an agreement with Swiss Rolba A.G.

Other Texas companies, already strong in the E.C., are using their presence as a stepping stone into Eastern Europe. Keystone International, which began exporting to Europe in the early 1960s, has a strong network of facilities and markets in the European Community. Specializing in flow-control technology, Keystone manufactures products used in such industries as utilities, chemicals, and oil and gas. To serve Europe, it operates a total of seven manufacturing plants in Italy, the United Kingdom, France, and the Netherlands. Last year, Keystone purchased two Italian companies, and is currently expanding operations in Germany in anticipation of serving new markets in East Germany.

Keystone's European sales accounted for approximately one-third of the company's \$376-million revenue in 1989, and CEO Raymond LeBlanc projects that the company's European sales will double over the next five to six years. What will be the impact of 1992? "We've been operating as if it [had been] in existence for the last 10 years," says LeBlanc. "We restructured so that we could look at Europe as all of Europe."

Texas is aggressively promoting trade with Europe statewide. In September it will open its first European trade office in Frankfurt. In conjunction with the opening, the state will host "How to do Business in Texas" workshops in Frankfurt, Paris, Brussels, and London. Simultaneously, it is inviting E.C. officials to present workshops for Texans on how to do business in their countries. "We want Europeans to understand that there's a lot more to Texas than tumbleweeds and oil," says Taylor. "And we want Texans to learn about doing business in Europe."

In May, Texas Department of Commerce officials represented Texas' computer, software, microelectronics, and telecommunications industries at CeBIT '90, the world's leading technology trade show held in Hanover, West Germany. Not only did they bring home trade leads for Texas products, they also promoted investment in Texas and initiated academic exchanges.

With a new overall emphasis on international trade, the Texas Department of Commerce operates an Export Assistance Network, made up of more than 70 local export incubators, that disseminates information on trade opportunities. Meanwhile, Commerce's Export Finance Office offers such services as matchmaking between Texas exports and lenders, export loan guarantee programs, and export credit insurance.

Albine Vermot-Gaud, the Texas Department of Commerce's European trade specialist, reports mounting interest among Texan businesses in dealing with the E.C., due to publicity about 1992. "Many companies know they should be there. Small businesses don't know how to proceed. Should they form a joint venture? Find a distributor? We try to assist them. And we tell them now is the time."

Houston is preparing for 1992 by educating area businesses, says Miguel San Juan, world trade director for the Greater Houston Partnership (comprising the Houston Chamber of Commerce, Economic Development Council, and World Trade Center). For the Texan new to international business, dealing with the United Kingdom is often the preferred entry point, he notes. "We have the same language, same business traditions, same cultural background. And London is very accessible."

The University of Houston's Small Business Development Center counsels small businesses that want to enter the European marketplace. Its International Trade Center, one of the few in the United States directed to small businesses, works with clients in 32 Texas counties.

Reporting growing interest in international trade, counselor Barron Lazano says: "Small businesses are learning the need to compete in the world market in order to compete at home. And they're very interested in the E.C., with all the emphasis on 1992. Many had almost forgotten Europe. Today they're concerned that they need a presence there now."

While encouraging state businesses to look to Europe, Texas is also actively promoting European investment in the



COURTESY COMPAQ

The E.C. is Texas' second-largest export market. Houston-based Compaq (above) reported European sales of more than \$1 billion last year.

Lone Star State. Says San Juan: "We're known as the Energy Capital of the World. Now we're pointing out that we have lots more to offer, including space-related industry and the Texas Medical Center." Emphasizing Houston's pro-business stance, San Juan says that the Greater Houston Partnership does everything from opening doors for a company coming to town to advocating tax abatements when needed. "We welcome them with open arms. If you've got a good deal, we listen."

Europeans are indeed returning to Texas, says Barry Snowden, a partner in the Houston-based law firm Morris Tinsley & Snowden. Representing numerous French clients, he reports that their current investments "span the board," including sales marketing, real estate, banking, and manufacturing. "We're seeing entrepreneurial, profit-oriented Europeans coming here. They see this as an entrepreneurial area." Many good opportunities are in the marketplace, Snowden points out. "Real estate is a very good value right now. And the oil market is stabilizing, so energy-related businesses are a good investment."

Jean Pierre Donnet, president of Total Minatome, says that Houston is an excellent place for business. His company, a wholly owned subsidiary of the French oil company Total CFP, opened in 1984. Though disappointed that oil and gas prices have not risen any higher, Donnet says: "It's easy to set up business and to arrange banking here. And we've been able to rapidly develop a network with our competitors. After all, Houston is the Energy Capital of the World."

At press time, top officials from the Port of Houston were calling on customers in Portugal, Spain, Italy, France, and the United Kingdom. Ned Holmes, chairman of the Port Commissions, led the trade mission. "With integrated Europe less than two years away, we want to fortify our relationship with our customers, and to lay the groundwork for new business," says a Port spokesman.

Through the state, interest in E.C.-1992 is mounting. Typifying Texas' stance, San Juan says: "We're ready to step into the global market. Who knows what the future will bring. But whatever it is, we're ready." €

Gail Rickey is a freelance writer in Houston.

||●|| Lone Star State Seeks European Visitors ●||

Not only does Texas seek increased trade with the E.C., it also hopes to attract even more European tourists. In terms of international visitors to Texas, the United Kingdom ranks third, Germany fourth, and France fifth. (Mexico and Canada are first and second, respectively.)

Building on its strengths, Texas is concentrating its European marketing efforts on the United Kingdom and Germany. Posters in London tube stations invite Britishers to "come to a land where the natives are friendly and the language barrier is easily overcome."

While the British have long been drawn to Texas by its Old West image, today's travelers are also attracted because of the destination's "value for money," says Mary Lynn McBride, international travel trade coordinator for the Texas Department of Commerce Tourism Division. Included in the state's marketing efforts was a week-long rally for U.K. travel agents. "We wanted them to see how easy it is to travel in Texas," says McBride.—G.R.

Paul Volcker

Former Fed Chairman Looks at the Economics of the New Europe

Paul Volcker, former Chairman of the Board of Governors of the Federal Reserve Board from 1979 through 1988, was considered the second most powerful person in Washington during his long tenure at the Fed. Volcker, now chairman of James D. Wolfensohn, Inc., a private bank in New York, also lectures on economic and financial issues at Princeton.

VOLCKER, one of the leading financial economists in the world, presents his views on the E.C., German unification, market economies in Eastern Europe and the Soviet Union, the Eurofed, the European Currency Unit (ECU), and a wide range of economic issues in this exclusive *Europe* interview.

Do you have a general view of the European Community?

I have spent some time looking at this. I shared the fears of many people that there would be very strong temptations to turn inward as part of this process of perfecting the common market within Europe, or within the Twelve anyway. I have been increasingly encouraged on two points recently, however. One is that those inward-looking forces will not prevail, the open forces are more likely to prevail and be a constructive force in the world economy as well as within Europe.

The second is the sense that, somewhat contrary to what might have been expected, all the turmoil in Eastern Europe is neither interrupting nor slowing down the drive for 1992, to use that symbol. They'll be speeding it up, and from my perspective that's a welcome development. I hope—and believe—it is true.

If we look ahead 10 years from now, do you feel that Poland will have created a market economy?

When you're talking about 10 years, you're looking at it in the right time perspective. This process takes quite a while, and there are going to be a lot of tensions and difficulties in the process. I would certainly hope that in 10 years they will have a market economy. That would be where we would like to see them, and where they want to see themselves, but that doesn't mean they will be up to Western European standards.

And what will the difference be then?

They may have a market economy, but just in terms of wealth per capita, production productivity, and those kinds of measures. I don't think there's any way they can reach Western European standards in 10 years.

Should U.S. investors or businesses be long or short in German marks?

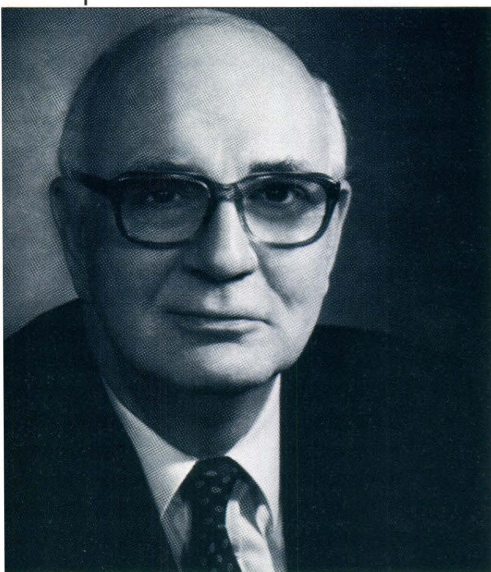
I'm not going to give you currency advice, even in a 10-year time perspective. Obviously Germany has a strong economy, and I am among the optimists who think that it can manage its own unification without throwing itself off course.

What is your view of German unification? Is it motivated by economic concerns?

Well, I guess the movement within Germany seems to be spontaneous combustion. You've got a German state that was once unified with a troublesome history, but nonetheless unified. They think of themselves as one country. Unification is being driven by the people, isn't it?

Will there be a Eurofed and a single currency in Europe by the end of the century?

My guess is yes. It will either be established and a single currency, or the Europeans will have a single currency or



something approximating it, or a much more unstable currency relationship. I don't think they will persist in this kind of halfway house.

Do you know what central bank the Eurofed will be patterned after when it is established?

I thought they were using the model of the Federal Reserve. I think they're debating that right now. They have a number of models and they don't have to follow any one model precisely. But you have two examples: the Bundesbank was modeled on the Federal Reserve itself, so if you model it on the Bundesbank, you're modeling it on the Federal Reserve once removed. It has a natural kind of federal structure to it, but it doesn't mean you have to model it on the Federal Reserve or on the Bundesbank in every respect.

You mention the single currency issue. Should we be buying European Currency Units right now? Do you think that will turn into a workable currency?

The ECU or its successor, yes. But that doesn't mean you should be buying it. That all depends upon the exchange rate, presumably at that point vis-à-vis the dollar or the yen, and upon the relative strengths and stability of the U.S., European, and Japanese economies. One would like to think the United States can hold its own in that company.

Would you agree that the ECU will be the European currency in the year 2000?

I would tend to bet on the ECU, but what they name it in the end is somewhat arbitrary. You have a basic economic situation where Germany has been historically the most stable and the strongest economy and it's going to have a lot of weight—whatever the mechanics of the

Somewhat contrary to what might have been expected, all the turmoil in Eastern Europe is neither interrupting nor slowing down the drive for 1992.

relationships or whatever you call the currency.

Will the economies of Western and European Europe be closely linked 10 years down the road?

One would certainly think that if things go well—if, in fact, you have greater unity in Europe—you go toward the idea of one market and, with the linkages at the very least with Eastern Europe, the idea of a single European home. Then you will have more symmetry in infrastructure than a lot of approaches. Eastern Europe is way behind, however. You're not going to bring its infrastructure up to Western European standards, just as the whole economy is not going to reach Western European standards in a 10-year period. It would take, among other things, huge amounts of capital.

Do you approve of the new European Bank for Reconstruction and Development?

I'm inclined to think it's a good idea. You can debate whether it's really necessary, whether existing institutions—more specifically the World Bank—could not do the function. The World Bank has the experience, the expertise, and the money and could be provided with more money. I'm inclined to think it is useful to have a special focus in a new institution on Eastern Europe, but is it worth that degree of special attention?

Could the United States have spent

more on infrastructure and less on defense during the cold war years?

The obvious argument is that the fact that we spent a lot on defense was one element at least in the constructive changes we see in Eastern Europe and the Soviet Union and the world generally and that it was a very important investment in the future. If all goes well, of course, we will have substantial resources released for infrastructure and other matters in the future. There will be more demands on the peace dividend than we have, I'm afraid. We're not going to escape from budgetary constraints. But perhaps we can have some of the fruits of the successful policy of the past.

Soviet President Mikhail Gorbachev continues to talk about a market economy for the Soviet Union. Do you think it is actually possible for the Soviet Union to move to a market economy?

I think it's certainly possible. It's a question of how fast and how. The Soviet Union is a big, cumbersome place. It will have to move toward more reliance on the market. I think I'm too distant to offer any very useful advice on just how to do it, or at what pace.

Do the Soviets have a banking system that would allow them to work with the West?

Well, not very well right now. They have a single big state bank that's basically an instrument for administering a centrally planned economy. That is quite different from a banking system as we think of it. They will have to make important fundamental changes as part of the move toward a market system. €

Paul Volcker was interviewed in June by Robert Haslach, who is a regular contributor to *Europe*.

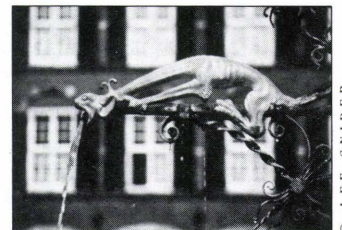


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*New Markets Will Blow Fresh
Winds
Into The Sails Of The Dutch
Economy*



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Laura Raun

BY THE TURN OF THE CENTURY, THE Netherlands will be just as picturesque as today, with its lush green fields splashed with water and dotted with windmills. But the countryside will be cleaner, some of the black and white cows may disappear, shops will stay open longer, and the population will be grayer.

The new Eastern European markets promise economic growth for the Netherlands. From left: Amsterdam's Leidseplein; Dutch countryside; The Hague's Binnenhof.

NETHERLANDS

The end of plentiful natural gas, which has financed the lavish welfare state, will be in sight. A Dutchman may preside over a barrier-free Europe, and the Dutch Prime Minister may come from Democrats 66, an eclectic party of intellectuals. For the first time in a century, the Dutch throne may be held by a king, now Prince Willem Alexander.

The 1990s, widely seen as the decade of Europe, will be characterized by unification and competition. The Dutch remain committed Europeans, but idealism about the brave new world after 1992 is giving way to a new realism. The Netherlands, like most E.C. member states, feels a bit threatened by the rapidly approaching 1992 deadline for the completion of the single market.

A relatively small country with a language spoken by only a few people worldwide, the Netherlands is worried about losing its cultural identity. The Dutch fear that wide-ranging harmonization among the Twelve could jeopardize such deeply rooted Dutch values as family life, tolerance, decision making by consensus, and worker participation in corporate management. "We will keep a number of characteristics of our Dutch identity," promises Wim Kok, Vice Premier and Finance Minister of the Netherlands. "I think in a more integrated Europe there will still be room for cultural identity and distinctions."

A crucial question for the Dutch is whether democratic decision making is being sufficiently guaranteed in the European integration process. The recent apparent agreement between Paris and London over the new European Bank for Reconstruction and Development (EBRD) deeply wounded Dutch national pride. The Hague had keenly wanted Onno Ruding, the former Dutch Finance Minister, to head the new bank designed to finance the rebuilding of Eastern Europe's shattered economies. Under a gentlemen's agreement between France and Britain, however, French presidential adviser Jacques Attali will head the EBRD, and London will provide a home for it. As a result, some Dutch worry privately that the big E.C. members are riding roughshod over the smaller countries.

The public humiliation of this incident will make the Dutch much more skeptical and critical about European monetary and political union, say observers such as Tijo van Marle, head of Crédit Suisse-First Boston in Amsterdam. "The Dutch may approach [union] more gradually now whereas before a lot of people talked

about one Europe with a gleam in their eyes," he opines. "Perhaps people will realize that we shouldn't go into a united Europe with a common monetary policy and political union with limitless optimism."

Kok notes the crucial need for democracy in the Community. "The strengthening of the current integration must take place within a joint desire to listen to each other, to take each other seriously, to judge each other on the basis of arguments, and not to deteriorate into the mistake of making agreements between a few 'biggs' in small rooms behind closed curtains. That would be a bad thing for the democratic *gestalt* of Europe."

A Socialist, Kok entered office last November as part of the new Christian Democrat-Labor coalition government of Prime Minister Ruud Lubbers. It is the first time in nearly a decade that Labor has governed and the party has promised "social renewal" after seven years of center-right government.

Pressure to deliver has grown since local elections in March, when Labor scored an eight-year low in the polls, capturing only 25 percent of the vote. A

Another force driving the economy are the "green" technologies sprouting from the ambitious Dutch efforts to clean up the crowded country.

big winner, as in the 1989 general elections, was the Democrats 66 Party, which is known for thoughtful positions on euthanasia, women's rights, pensions, and restrictive shop hours.

For Lubbers, now in his third term as Prime Minister, the challenge is to deliver social renewal at a time when a huge government budget deficit imposes heavy constraints. The fiscal gap is about 5 percent of gross national product (GNP), which is significantly higher than the much maligned 3-percent deficit in the United States. State debt totals 65 percent of GNP.

Fortunately, German unification and the opening of Eastern European markets

Amsterdam Financial Gateway

In order to become the "Financial Gateway to Continental Europe" it wants to be, Amsterdam and the Dutch financial community are engaged in a concerted effort to tell the world that the city aims to become the premier center for trading in Dutch securities.

The Amsterdam Financial Center explains that markets are being modernized and that Amsterdam is being made more attractive for setting up shop. "After the barriers are removed this summer, business can really start," predicts Fop Hoogendijk, chairman of the Amsterdam Financial Center. "There is concerted action, not only on paper but in spirit."

Bankers, insurers, bourse executives, institutional investors, and government representatives have joined hands to defend Amsterdam's historical role as an international financial center against intensifying competition. Organized in the Amsterdam Financial Center, they have sought to carry out 23 recommendations that were contained in the Financial Gateway initiative unveiled in March 1989.

The most sweeping of the reforms are those on the Amsterdam Stock Exchange, which currently ranks sixth in Europe. After London siphoned off half or more of all trading in Dutch Government bonds in recent years, ambitious steps are being taken to recoup that business.

They include a new "open order book" for bond dealing in which banks will make markets for the first time and hopefully sharpen prices. All trading with foreigners must be reported to the Amsterdam Stock Exchange floor, thus increasing volume and transparency. The bourse already has been involved in a "rolling big bang" of

improvements designed to keep it competitive. Fixed commissions and the stamp duty on securities trades will be scrapped, thus trimming prices.

In the run-up to the single European market after 1992, Dutch financial institutions are joining forces to withstand stiffer competition. The two biggest banks in the country, Amro and ABN, are planning to merge by autumn to become "global players" in selected markets.

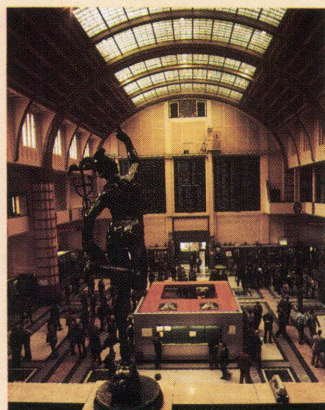
Another bank, NMB Postbank, was formed by the marriage of the fourth- and fifth-biggest banks last year. Insurers are forging strategic alliances as well.

The Dutch also hope to carve out market niches by building on such established strengths as international trade finance and venture capital. A new European Finance Insti-

tute is supposed to hone the general level of local expertise in various financial disciplines.

Amsterdam is being polished up to provide a more attractive home for foreign financial institutions by trying to shake off its image as a drug mecca for hippies and squatters. It is building instead more luxury housing for highly paid bankers, and also hopes to be the headquarters for the envisioned European Central Bank, having lost the race for the new European Bank for Reconstruction and Development.

Wim Kok, the Dutch Finance Minister, sums up the initiative this way: "There is no alternative, absolutely [none], for a line in which you try to secure and improve your relative position in the international world. A good defense is not wrong. We can't win the World Cup in Italy if we only have a good offense."—L.R.



Amsterdam's stock exchange is modernizing.

are expected to blow fresh winds into the sails of the Dutch economy, which is already skimming along nicely. Germany takes in 25 percent of Dutch exports, and that figure could rise as its economy booms. Eastern Europe is forecast to absorb 7 percent of Dutch exports by the year 2000, up from only 1.5 percent to 2 percent now.

As the E.C. broadens into a European

Eastern Europe is forecast to absorb 7 percent of Dutch exports by 2000, up from about 2 percent now.

Economic Space (comprising the E.C., the European Free Trade Association, and Eastern Europe) in the 1990s, the Dutch will build on their strengths of trade and transport. Already considered the "truckers of Europe," they will add value through more sophisticated logistics, automation, and specialized handling and storage.

Agriculture, an economic mainstay, will see massive subsidies curbed under pressure from the General Agreement on Tariffs and Trade. Dairy cows are likely to dwindle in number as a result.

Dutch companies fear the expected erosion of their infamous corporate anti-takeover defenses and resulting vulnerability to hostile corporate raiders. Major international companies such as Philips, which is currently plagued by financial troubles, could be targets. Nevertheless, medium-sized Dutch companies are more sophisticated in their strategic thinking on 1992 than those in Italy, France, and Spain, according to a recent international study.

Another force driving the economy are the "green" technologies sprouting from the ambitious Dutch efforts to clean up the crowded country. While the Netherlands is a tidy country, it is far from clean and the Lubbers Government recently unveiled an improved version of its na-



GOVERNMENT

ROYAL FAMILY: Queen Beatrix, married to Prince Claus of the Netherlands.

PRIME MINISTER: Ruud Lubbers

FORM OF GOVERNMENT: The Netherlands is a constitutional monarchy with a parliamentary system. All bills are submitted by the Council of State. If they are approved by Parliament, they become law after being signed by the Sovereign and the minister responsible.

MINISTERS: The Sovereign appoints ministers on the recommendation of the Prime Minister. The different parties that form the government then divide ministerial portfolios on the basis of the number of seats they have in parliament. Together with the Sovereign, the ministers form the executive.

STATES GENERAL: Parliament consists of two houses, with 75 members in the Upper House, indirectly elected by Provincial Councils, and 150 members in the Lower House, elected by universal suffrage. The sovereign and parliament form the legislature.

JUDICIARY: The judiciary is independent from the executive and the legislature. Judges are appointed for life and there is no trial by jury.



BRIEF HISTORY

LOW COUNTRIES: Under Charles V (1500-88), the Netherlands, Belgium, and Luxembourg formed the Low Countries. These were part of the great Burgundian-Hapsburg Empire.

INDEPENDENCE: When provinces rebelled against Philip II of Spain in 1568, the Netherlands emerged as a budding independent state: Prince William of Orange, who had led the revolt, had started the 80 Years' War of independence, which would end with the Peace of Westphalia (1648) and Dutch independence.

KING: The first king of the Netherlands was William I, Prince of Nassau (1533-84).

TRADING POSTS: In the "Golden Age" of the 17th century, Dutch merchants established trading posts all over the world.

OCCUPATION: Although it was neutral during both World Wars, the Netherlands nevertheless endured German occupation from 1940-45.

COLONIES: After 1945, the Dutch colonies—Indonesia and Suriname—became independent eventually.



DEMOGRAPHICS

POPULATION: 14.9 million (40 percent of the population is under age 25).

RELIGION: 36 percent Roman Catholic, 20 percent Dutch Reformed, 32 percent unaffiliated.

LANGUAGES: Dutch. Frisian is spoken in the province of Friesland.

GDP: 474.11 billion guilders (\$262 billion) (1989).

CURRENCY: The guilder. \$1 = 1.81 guilders (June 17, 1990).



BUSINESS

DUTCH INDUSTRIAL LEADERS: Royal Dutch/Shell; Philips; AKZO; Heineken; Unilever.

DUTCH FINANCIAL LEADERS: Amrobank; ABN Bank; Rabobank; Pierson, Heldring & Heldring; Morgan Grenfell Securities; Aegon Insurance Co.; Nationale-Nederlanden Insurance Co.

TRADE: In 1989, U.S. imports from the Netherlands amounted to \$91.8 billion. Exports to the Netherlands reached \$95.2 billion. This was the largest U.S. trading surplus with any country in the world.

INVESTMENT: With direct investment of \$55.7 (1989 figures), the Netherlands is the third-largest investor in the United States, behind the United Kingdom and Japan, respectively.

USEFUL ADDRESSES

- **OFFICE OF THE NETHERLANDS INVESTMENT AGENCY**
One Rockefeller Plaza
New York, N.Y. 10020
Tel.: (212) 980-1500
Fax: (212) 346-9769
- **ROYAL NETHERLANDS EMBASSY**
4200 Linnean Avenue, N.W.
Washington, D.C. 20008
Tel.: (202) 244-5300
- **NETHERLANDS CHAMBER OF COMMERCE**
One Rockefeller Plaza
New York, N.Y. 10020
Tel.: (212) 265-6460
Fax: (212) 265-6402



GEOGRAPHY

AREA: 41,863 square kilometers (16,163 square miles)

CAPITAL: Amsterdam

SEAT OF GOVERNMENT: The Hague
CLIMATE: Temperate maritime climate. Temperatures average 35 degrees Fahrenheit in January and 62.6 degrees Fahrenheit in July.

PROVINCES: The Netherlands is divided into 12 provinces, including North Holland, South Holland, Limburg, Friesland, and Flevoland.



SPORTS

MOST POPULAR SPORTS: Soccer, athletics, cycling.

SPORTING EVENTS: 17,000 people take part in the "Elfstedentocht"—a long-distance skating race between 11 towns in Friesland.

LOCAL TRADITIONS: Vaulting over a wide ditch with a pole: This is called "Fierljeppen," which started in Friesland.
FAMOUS DUTCH ATHLETES: Soccer players Frank Rijkaard, Ruud Gullit, and Marco van Basten; Stefan van den Berg won the gold medal in windsurfing at the 1988 Los Angeles Olympics; and Arie Luyendijk won the 1990 Indianapolis 500.



MISCELLANEOUS

- Both the Permanent Court of Arbitration and the International Court of Justice sit in the Peace Palace at The Hague.
- All Dutch bank notes have dots or a raised triangle so they can be recognized by the blind.
- Famous Dutch painters are Vincent van Gogh, Rembrandt van Rijn, Frans Hals, and Johannes Vermeer.
- In 1987, director Fons Rademakers received an Oscar for the film "De Aanslag" (The Assault).
- The flower season begins in March and ends in April. The Dutch national flower is the tulip.
- "Sail Amsterdam," the world's largest tall ship festival, will take place in the Dutch port from August 9-14, 1990.



NETHERLANDS BOARD OF TOURISM

With its promise of social renewal, the Dutch Labor Party was voted back into power after seven years in opposition. Above: The Parliament buildings in The Hague.

tional environment plan first presented last year, when it was already among the most comprehensive of its kind in the world.

Under the "national environment plan plus" all air, water, and soil pollution will be slashed by up to 90 percent by the year 2010. This will be achieved through stricter standards, tougher fines, and higher taxes. The green plan carries a huge price tag of at least 600 billion guilders (\$316 billion), including both annual spending and investments over a 20-year period. The "plan plus" relies heavily on laws and fines to prod people into saving the ecosystem.

Meanwhile, attempts will be made to widen the tax base to pay for the sweeping environmental cleanup and other amenities of the lavish Dutch welfare state. The cradle-to-grave welfare state, erected in the 1950s, has been financed with plentiful natural gas revenues. That valuable resource will start running out by 2015, however, when exports will stop unless current contracts are extended. As a percentage of the 14.8 million population, the Netherlands has fewer employed people than any other E.C. mem-

The Dutch clearly will not give up their monarch, who is cherished as the epitome of Dutch values.

ber except Ireland. Only 42 percent of women work outside the home, for example, because family life is cherished so deeply. Unemployment is dwindling slowly, now amounting to nearly 9 percent.

A rapidly graying population will add further financial burdens in the form of pension benefits, medical costs and housing. By 2010, some 14 percent of the population will be 65 years and older, up from 13 percent now.

The biggest changes loom in social policy. Of immediate concern is the Netherlands' tolerant drug policy, which views addiction as a health problem rather than a crime. The Netherlands' neighbors in the Schengen Accord (under which the

Netherlands, Belgium, Luxembourg, France, and Germany plan to end their border controls by the beginning of 1992) complain that "drug tourists" bring drugs back into their countries.

In other social areas, the Dutch ban on commercial broadcasting is rapidly crumbling under the relentless assault of modern satellite broadcasting and the E.C. Commission. Even a Sunday newspaper, which the Dutch have always eschewed, seems imminent. And shops, which until now have closed promptly at 6:00 PM to preserve the home life so important to the Dutch, will be allowed to stay open in the evenings and on Sunday, in line with E.C. regulations.

But the Dutch clearly won't give up their monarch, who is cherished as the epitome of Dutch values, culture, and identity. The only question is when Queen Beatrix will abdicate in favor of her eldest son, Prince Willem Alexander. In 2000, she will be 61 years old. **€**

Laura Raun is a reporter for *World Business Tonight*, a joint production of *Financial Times Television-CNN*, in London. She was the *Financial Times'* Amsterdam correspondent until recently.

PETER GREENBERG



© SAM PIERSON

The tulip is the Netherlands' national flower. The Hague (right), described as the country's most dignified city, is the seat of the government.

Exploring Amsterdam

*From History to Rock, there's
Something for Everyone*



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IF ONE DIDN'T KNOW ANY BETTER AND JUST looked at tourist posters, one would naturally assume that the Netherlands was nothing more than tulips, windmills, and wooden shoes. One can find the tulips, windmills, and people wearing those wooden shoes, but the Netherlands is much more than just these clichéd images.

The first stop for most visitors is Amsterdam. The city is more than 700 years old, but its spirit remains young, which makes it one of Europe's most exciting places. And thanks to one of the best designed, most efficient airports in the world, and an excellent national airline, KLM, Amsterdam is also one of the most easily accessible cities, and can rightfully boast its reputation as an excellent hub for journeys to the rest of Europe and the world.

But don't look for a city that is squeaky clean or rigid in its rules. Amsterdam does not do a great job of maintaining traditional Dutch sparkle.

Yet, Amsterdam remains my favorite

Dutch city, simply because of the combination of history, culture, and energy.

There is a palpable rhythmic beat to Amsterdam. You feel almost as soon as you arrive that something is going on, that a tribal gathering is about to begin. And if you just ask—or look around—you'll find it.

One quick way to get your bearings in Amsterdam is by taking a boat trip along the canals. There are a number of boat operators, but my choice is the **Museum Boat**, which passes by 12 major museums.

Amsterdam is also one of the music capitals of Europe. Check out local newspapers or ask your hotel concierge and,

through virtually no advance planning, your travel itinerary might well coincide with that of one of your favorite classical or rock and roll stars since many music heavies do concerts in Amsterdam. On past visits to Amsterdam, I have heard great chamber music. I also caught the Eric Clapton tour.

In fact, the Hilton hotel just celebrated a musical anniversary of sorts: In 1969, a white Rolls Royce pulled up in front of the hotel, its two passengers were whisked up to the ninth floor and ensconced in a special suite.

And then, for the next week, wearing white robes and lying in a room painted white, John Lennon and Yoko Ono staged their "Bed-in for Peace." The Hilton has now totally redone suites 902 and 904 as one, filled them with John and Yoko memorabilia, and re-painted the room all in white. The John and Yoko Honeymoon Suite (\$750 a night, and the most expensive room at the hotel) gets you the original bed, complete with a headboard that features a telephone, and audiovisual and lighting controls; a minibar and com-

AMSTERDAM

pact disc player wrapped in rough cotton bags (related to Yoko's bizarre concept of "Bagism"); a special library of Beatles books, compact discs, and movies; and works of art by John and Yoko on the walls and windows.

In addition to the John and Yoko nostalgia, the Hilton also boasts a casino, which is open to anyone with a foreign passport. You are not required to gamble, but the casino is a great people-watching place, a magnet that seems to draw in many visiting foreign VIPs, so you *are* required to watch!

The city offers a number of excellent hotels. While the Hilton serves the business traveler, my favorite hotel is the Pulitzer, for style as well as architectural idiosyncrasy. The hotel actually comprises 23 ancient houses that have been joined together in one of Europe's most ambitious hotel restorations.

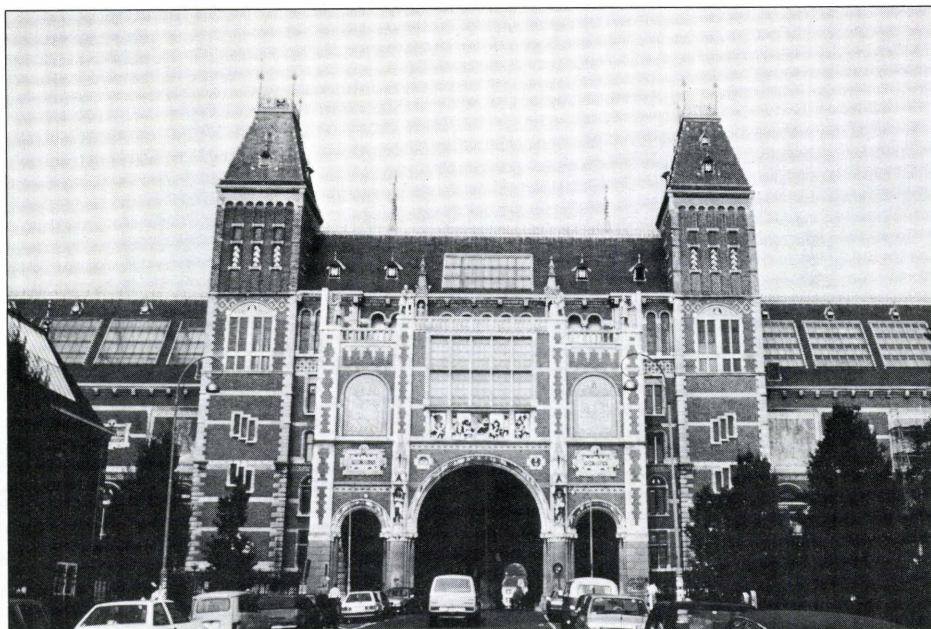
Amsterdam does have its notorious steamy side, and a reputation as a hub for drugs. Then there's its infamous red light district, which begins unofficially behind the Hotel Krasnapolsky, one of Amsterdam's fine Old World hotels.

I have often felt that Amsterdam is a city designed for looking and exploring, because it is small, densely packed, and—best of all—made for walking.

It also prides itself on its museums—both large and small—which, like the city, are easily seen. On the southernmost edge of the outer Singel Canal, you can find perhaps the most distinguished of these—the Rijksmuseum, the Stedelijk Museum, and the Rijksmuseum Vincent van Gogh. The Rijksmuseum is easily recognized by its cluster of towers, and is generally considered the most important.

Nineteen-ninety marks the centennial of Vincent van Gogh's death, and throughout the Netherlands his life and work will be celebrated with a ballet, two operas, commemorative posters, and other exhibitions. If you miss any of the festivities, just go to the museum dedicated to him, which contains the world's largest collection of his works.

Amsterdam also has a number of good restaurants. I hesitate to use the word excellent here, since Amsterdammers don't seem to pride themselves on their cuisine, and since defining authentic "Dutch" cuisine is essentially impossible. At the **Oesterbar**, salmon and trout are the specialties. It's expensive, but offers great people-watching opportunities and an interesting design of tiled walls surrounding fish that gaze out at you through the aquarium windows. There's also **La Rive**, overlooking the canal at the Amstel



The Rijksmuseum in Amsterdam houses the works of some of the Netherlands' most important painters.

*Thanks to a good
infrastructure, day trips in the
Netherlands are remarkably
free of hassles.*

hotel, which is known for its French cuisine. And then there is **Dynasty**, which, for some strange reason, the guidebooks have forgotten about. Perhaps the best restaurant in town, **Dynasty** offers the finest Indonesian-Chinese food I have ever eaten. Reservations are a must, because the locals discovered it long ago.

Apart from Amsterdam, however, there's also Rotterdam, the world's busiest port; Utrecht, Holland's oldest city; Gouda, famous for its cheese; and The Hague, the Netherlands' most dignified city. And, in between, you can visit Delft.

Sound like a lot of ground to cover? Most first-time visitors are surprised at the country's size—or lack of it. The Netherlands is half the size of South Carolina and is made up of 12 provinces. Each of these trips is a manageable one-day affair, and getting around the Netherlands is extremely easy. By car or train, access to most major cities and towns is remarkably free of hassles.

Rotterdam has long suffered from a "second city" complex. The city has traditionally been discounted as nothing more than a super-port filled with workaholics, concrete highways, and glass buildings. But it is one of the great cities

of Europe, despite being a trading and financial center (it is home to more than 3,500 international trading companies). It has a wide variety of museums and its port absolutely deserves a tour. Nineteen-ninety also marks Rotterdam's 650th anniversary, with festivals and exhibitions scheduled throughout the year.

Rotterdam is only about an hour from Amsterdam, and you can make it a day trip. Take a boat tour of the harbor (on which you can see the docks at ancient Delshaven where the Pilgrim Fathers slipped their moorings in 1620 and headed for the New World).

Head directly for **De Pijp**, a one-room restaurant at Faggelstraat 90. This eccentric, chaotic place is open until 1 A.M. and is worth it for the atmosphere alone. Just seven wooden tables have been pushed together, life preservers and metal seagulls hang from the ceiling, and there is sawdust on the floor. But don't let the flotsam and jetsam fool you—the cooking is superb. €

Peter S. Greenberg is a freelance writer in California. His article "The New Global Airlines" appeared in *Europe's* June issue.

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CAPITALS

Good Neighbors

ATHENS—Greece's lack of a land frontier with the E.C. means that much of its often perishable produce headed for Community markets has to be carried by long-distance trucks through Yugoslavia. In times of stability this caused few problems and, indeed, Yugoslav roads have been improved with assistance from Brussels. Since democracy was restored in Greece in 1974, relations between Athens and Belgrade, with a single reservation, have been good.

However, one weekend in late May, tension appeared when a few thousand demonstrators from Yugoslavia's Socialist Republic of Macedonia blockaded three border crossings for several hours, including the main Evzoni-Gevgelija highway link.

The blockade followed a proposal by Belgrade to cut drastically the number of transit permits issued for Greek trucks in 1990. Existing permits having already run out, freight was quickly switched to other routes—through Bulgaria and Romania or by ferry to Italy.

Greek officials dubbed the move "economic strangulation" and pointed out that the alternative routes were more expensive, adding to the cost of Greek produce and making it less competitive. E.C. Foreign Ministers, meeting in Dublin, called for an end to Yugoslav obstruction, and the E.C. Commission linked the problem to aid for Yugoslavia. Diplomatic

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moves were soon under way to repair the immediate damage.

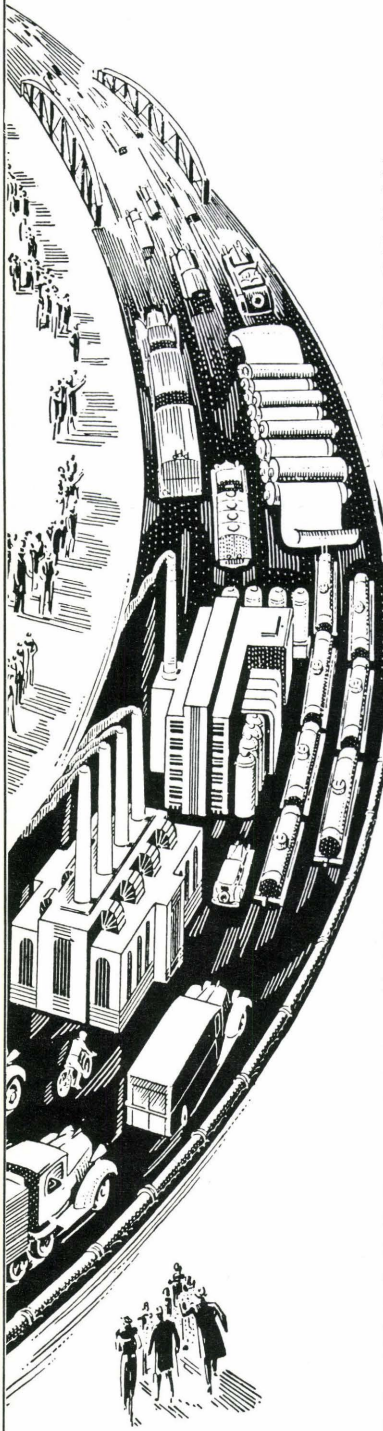
However, both the blockade and the deadlock of transit permits were symptoms of the one irritant underlying Greek-Yugoslav relations, a propaganda campaign from Skopje, capital of the Republic of Macedonia, about a supposed "Macedonian minority" in northern Greece. Athens has hitherto looked to Belgrade to restrain Skopje, but since last November the Yugoslav Government itself has attempted three times to bring the "minority" question before United Nations committees.

When the plans for the blockade came to light, the Greek Government pointedly reminded Belgrade that the federal capital, not Skopje, was responsible for the international frontier. The Yugoslav Foreign Ministry then declared that a blockade "could only have negative consequences." But the statement also referred to "open questions" between the

two countries, evidently meaning the "minority" again.

For Athens, "Macedonia" is nowadays a purely geographical term: Neither a Macedonian "nation" nor a Macedonian language exists. Half of Macedonia lies in Greece, nearly 40 percent in Yugoslavia (the Socialist Republic), and the rest in Bulgaria. Of the considerable Slavophone population once living in Greece, almost all left for Bulgaria in the 1920s or for Yugoslavia after the Greek civil war in the 1940s. Fewer than 10,000 elderly folk speaking a local Greco-Slav idiom remain, and they, Athens insists, think of themselves as Greek.

Officials in Athens note with concern the emergence of new ultranationalistic groups in Skopje. They believe centrifugal tendencies in the federation have made Belgrade a softer target for pressure from Skopje to take the offensive with its neighbors over "the Macedonian question." With the col-



lapse of communism in Eastern Europe and the loosening of federal ties in Yugoslavia, the Balkans could be reverting dangerously to type.

—PETER THOMPSON

Unifying Churches

BONN—As German unification moves swiftly forward, the merger between the East German and West German churches will take longer. Jürgen Schmude, president of the Synod of the Protestant Church in Germany (EKD), and his East German counterpart Rosemarie Cynkiewicz, agree that time, patience, and consideration for each other are needed.

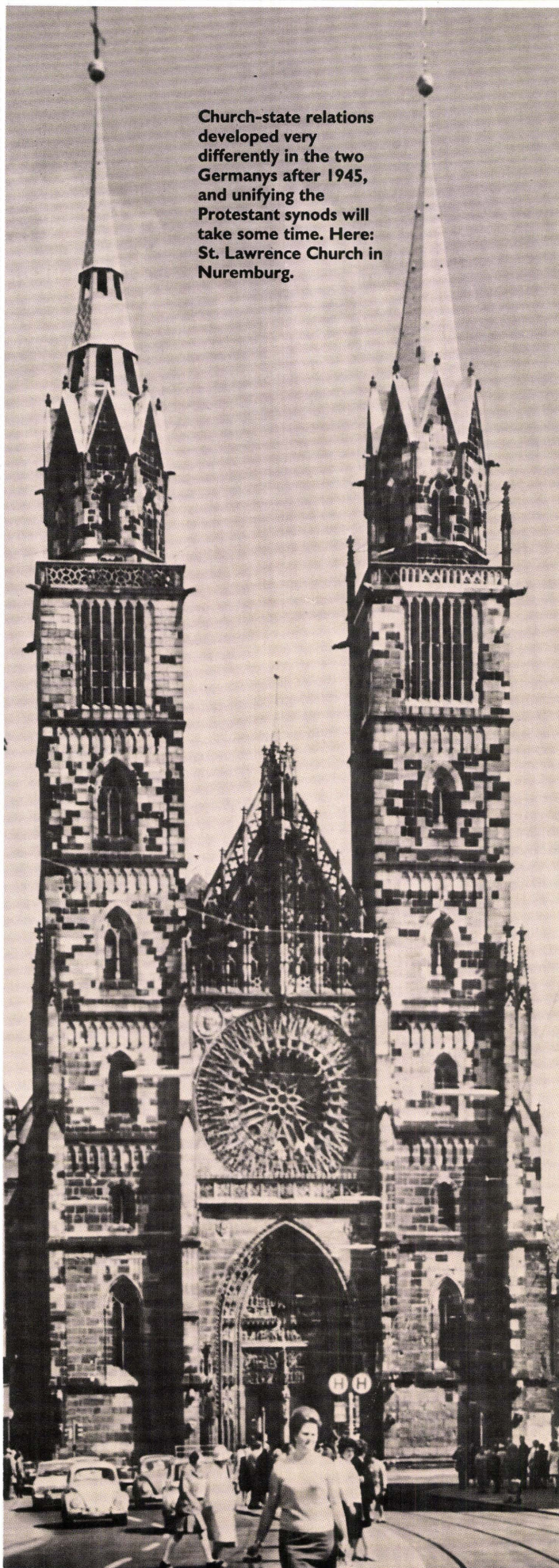
“Politicians offer us only a frame, but they are no pacemakers for us and we are no pacemakers for them,” says Schmude.

“For the process of growing together, it is important that we do not try to dominate each other,” urges Cynkiewicz. She admits that half of the synod would have preferred a slower unification process, “which would have allowed us to come to terms with our past.”

The German people were physically separated on August 13, 1961, when the Berlin Wall went up, and barbed wire and electric fences were put up along the 865-mile-long border between the two Germans. The churches were separated in 1968 when the new Constitution of East Germany came into force. In 1968, the eight regional churches in East Germany, which together with the 17 regional churches in West Germany founded a union—the Protestant Church in Germany—were obliged to form their own federation in 1969.

Cynkiewicz and Schmude disagree on the much disputed issue of church tax (*Kirchensteuer*). In West Germany, church tax (between 8 percent and 9 percent of in-

Church-state relations developed very differently in the two Germanys after 1945, and unifying the Protestant synods will take some time. Here: St. Lawrence Church in Nuremburg.



COURTESY GERMAN INFORMATION CENTER

come tax) is collected by state authorities (for which the churches pay the administrative cost) and is passed on to the churches.

Cynkiewicz wants to retain the present East German practice of voluntary contributions (but still called *Kirchensteuer*). “We were the church of the little people, the poor church,” Cynkiewicz said. “We lived in solidarity with our people, and this made the preaching of the Gospel credible.”

Cynkiewicz accuses Schmude of not even having any doubts about the West German system, which, in her view, makes the church very dependent on the state. Schmude denies any dependence. He says the church and the state are partners, and *Kirchensteuer* is not compulsory. To avoid paying it, members can resign from the church.

The East German churches are under considerable financial strain. Without the financial support of the EKD (about \$148 million in the last 10 years), the Protestant Church in East Germany could not continue providing social services. It cannot even pay the modest salaries of its staff on its own. Many church people are toying with the idea of introducing the West German tax system, but others, like Cynkiewicz, prefer a clear division between church and state.

Speaking about the future of the Protestant Church in East Germany, Cynkiewicz announced that “as in the past, we shall take care of the underprivileged, the little people, all those who will be badly hit by the free-market economy.” She received sharp criticism when she declined to distinguish between the old and the new Government and declared that “the church will, as in the past, adopt a critical solidarity attitude toward the state.”

Schmude assures his counterpart that, despite their differences, both churches can learn from one another: “No-

body in the West has forgotten that it was the Protestant Church and its courageous ministers who initiated the soft revolution," he said. "And their undaunting example has also strengthened our faiths."

—WANDA MENKE-GLÜCKERT

Green Over Gold

DUBLIN—Ireland's Holy Mountain has been saved from the gold diggers, but Saint Patrick, who gave his name to the historic pilgrimage site on the northwest Atlantic coast, would not be happy at the haggling the recent episode has generated.

After a year of agonizing, the new Minister for Energy, Bobby Molloy, announced the decision at his party's annual conference to revoke all prospecting licences and to ban all mining on the mountain, known by its Gaelic name Croagh Patrick.

The decision spells trouble for Burmin Exploration, the mining company that recently estimated the gold reserves for three of the site's 11 veins at 498,000 tons. Burmin claims the potential yield could be worth more than \$300 million.

Otherwise, the ban was welcomed by most in this predominantly Catholic country. Environmentalists, too, felt their efforts had paid off. Last July, they successfully petitioned the mining and prospecting activities on the mountain when thousands, including Minister Molloy and this correspondent, came for the annual day of pilgrimage on the so-called "Garland Sunday."

Ironically, preserving the integrity of this place of prayer—where in the 5th century A.D. Saint Patrick reputedly rid Ireland of paganism and even snakes—could end up costing those pilgrims who flock there from all over the country. Following Molloy's ban on mining, Burmin, which claims to have invested \$3 million in

prospecting alone, instructed lawyers to draw up a claim for compensation that could cost the Irish taxpayer up to \$150 million.

About 20 companies are prospecting for gold and other precious ores in the most beautiful parts of the west of Ireland. In some cases, local people have asked the prospectors to leave their small islands, but the prospect of employment is tempting other communities to give gold miners a friendly welcome.—JOE CARROLL

Of Mad Cows and Englishmen

LONDON—The traditional English Sunday lunch of roast beef and Yorkshire pudding may be in danger of extinction. As a new bovine disease sweeping through cattle stocks has thrown a serious scare into the average English carnivore, millions of British consumers have dropped roast beef from their lunch and are buying alternatives.

Bovine Spongiform Encephalopathy (BSE), or "Mad Cow Disease," as the press has dubbed it, is a disease of the bovine nervous system whose final symptoms leave cows with a staggering gait and unpredictable and aggressive behavior. Nobody knows for certain what causes BSE, but there is a suspicion that it may have been passed on to cattle by feeding them recycled animal protein derived from sheep offal. It has been known for over 250 years that sheep carry a disease called Scrapie, which has marked similarities to BSE.

BSE has killed more than 13,000 cattle since it was discovered in 1986. The public only became aware of this last May, however, when the Agriculture Ministry announced that a pet Siamese cat had died of a BSE-like ailment. The possibility that BSE might jump the species gap and attack humans made



ILLUSTRATION BY JEM SULLIVAN

headlines across this pet-keeping nation.

Professor Richard Lacey, a Leeds University microbiologist regarded by many as the prophet of food doom, urges that all herds affected by BSE be destroyed. This would wipe out half of Britain's 15 million cattle stock at a stroke.

Lacey's critics, on the other hand, say that all this fussing about food is an indulgence of the affluent. "The only safe diet is one from which you would die of boredom," says Dr. Tom Coultate, a London-based food biochemist. "Why is a nation not prepared to take the remote risk from a tin of contaminated salmon when it is not worried about the greater likelihood of being run over by a truck loaded with the tins?" he asked.

If the experts disagree but still admit that, while there is no evidence that BSE can affect humans, there is also no evidence to the contrary, it is no wonder the layman is confused. Clearly, the public increasingly mistrusts modern farming methods, their effects upon the food chain, and the cattle-feed revolution.

The Government insists that British beef is safe to eat. But Agriculture Minister John Gummer hardly strengthened his case when he told a conference

of meat traders that vegetarianism is "wholly unnatural."

Then, forgetting that even the Devil can quote the scriptures, he cited the Bible in defense of carnivores, and further compounded the error by alluding to the "fascism of food faddists."

Dozens of schools and local authorities have taken beef and beef products off their menus and some doctors have advised that the under-50s should avoid beef. Let us hope this will not affect the famous Beefeaters who guard the Tower of London. Somehow, "Fisheaters" does not have quite the same sturdy ring to it.

—DAVID LENNON

Danish-German Relations

COPENHAGEN—If anyone had suggested a year ago that Denmark would outperform West Germany in terms of inflation, it would have been considered a very bad joke. And yet, in the first quarter of 1990, the Danish inflation rate was zero percent, compared to 3 percent in West Germany. German unification will ensure a continuation of that trend for some time to come.

One unhappy reason for this

unique Danish accomplishment is the slow growth of the Danish economy, accompanied by a 9-percent unemployment rate, one of the highest in the Community. Record numbers of mortgage foreclosures complete the dismal profile of the state of the Danish economy.

There is, however, some justification for medium-term optimism in the growth of exports, sustained by the low inflation and, especially, the growth of the unified German market.

West Germany is Denmark's largest industrial customer. Unification will add an extra percent to German growth, and, due to a spill-over effect in the form of higher exports, at least an additional half percent to Danish growth. This more than outweighs the negative impact of higher German interest rates to pay for unification.

Just as with inflation, any claim that the Danish krone would become a stronger currency than the German mark for any length of time would have found little support a short while ago. But though modesty and a hefty foreign debt prevent the Danes from threatening to cut the link to the German mark (as the Dutch did earlier this year), the Danish krone is now very strong. This has allowed the Danes to lower their interest rate, despite the rise in the German rate.

All polls show a strong majority of Danes supporting German unification, implying that the wounds of World War II have healed. Not surprisingly, the consensus is even stronger among the business community. At the same time, many Danes worry about the impact of unification on the balance of power within the European Community, and anxiously await the vision of the future of the E.C. that will be defined by a united German Government, whatever its political persuasion.

Denmark officially favors a strong, independent central European bank that would use as its blueprint and model the Fed-

eral Reserve of the United States and the West German Bundesbank. While the West Germans share this view, there is no such agreement in fiscal policy. Here the Germans want strict rules to ensure that deficit countries do not get a free ride in an economic and monetary union, while deficit-prone Danes prefer a more relaxed set of commitments.

—LEIF BECK FALLESEN

The Demon Weed War

PARIS—Smoking, one of the favorite vices of the French, has come under fire by France's Health Minister, Claude Evin. A national study conducted in 1987 first sounded the smoke alarm: The report claimed that smoking caused as many as 65,000, or 10 percent, of all deaths in France annually, and called for severe measures to combat the "French health disaster."

This spring, the French Government finally responded to the study's alarming statistics by drawing up a draconian new health plan. The proposed legislation would forbid all forms of tobacco advertising by 1993 and would raise cigarette prices by 15 percent next year.

It was a moral struggle for the French Government to come down so firmly on the side of the antismokers. For one thing, its most prominent Ministers tend to be inveterate smokers, starting with Prime Minister Michel Rocard, who is a pack-and-a-half-a-day man. More important, the French tobacco industry is a sizable golden goose, one that drops 30 billion francs (\$5.5 billion) into the Government's coffers every year.

What has pushed the Rocard Government into adopting an antismoking stance is the turning tide of public opinion. Whereas in the past the French puffed and coughed defiantly in the face of all warnings, they

are now showing a growing respect for each other's lungs. Over the last 10 years, the proportion of smokers in France has slipped from 40 percent of the population over the age of 15 to around 36 percent.

The public sector is fighting tobacco fumes where it can. The SNCF, the French national railway, which in the early 1970s still allowed people to smoke anywhere on a train as long as they did not "disturb" other passengers, now provides only one smoking car for every two no smoking ones.

Air Inter, the French national airline, banned smoking on all domestic flights last November. It reports that not only do 97 percent of the letters it receives support the smoking ban, but that 77 percent of them come from *smokers* who enjoy the challenge of surviving without a cigarette for an hour or two.

The pro-tobaccoists, for their part, are rallying the troops with the battle cry of "individual liberty"—always a powerful argument in France. The *Confrerie Jean Nicot*, a smokers' brotherhood named after the French Ambassador to Lisbon who first introduced tobacco to France in 1561, used

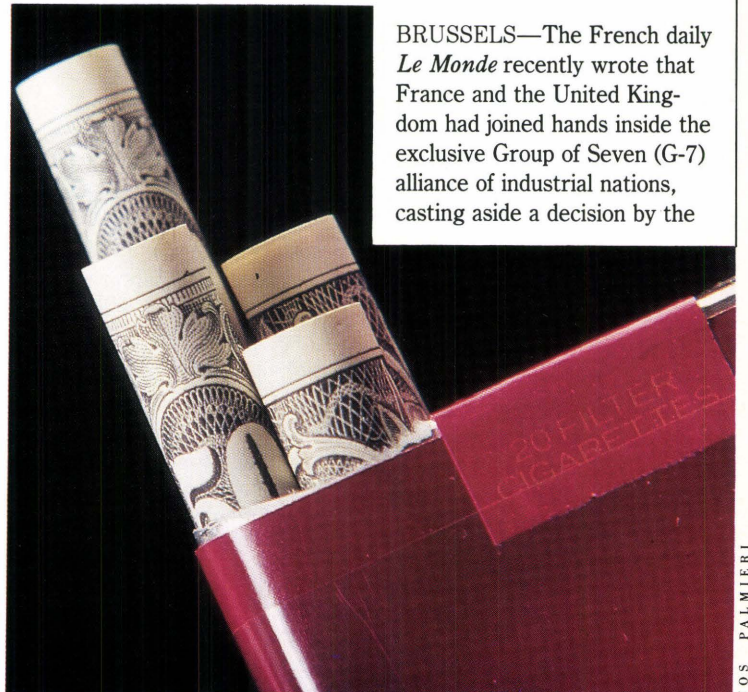
to be content to discreetly defend the gentle "art of smoking." But this year, it has been smoked out into the open by its adversaries' growing belligerence. Now the association plans to do public battle against the "puritan attitude" and "totalitarian aspects" of the antismoking lobby.

French tobacco manufacturers, meanwhile, are dreaming up new, nicotine-reduced cigarettes and thinking of ways around the proposed advertising ban. They are even promoting the demon weed as a cultural product. A recent exhibition in Paris featured the work of 50 photographers celebrating the famous gypsy, whose silhouette has been the *Gitane* cigarette company's trademark since the 1950s. *Seita*, the state-owned corporation that centralizes tobacco purchasing in France, has gone one better. It runs a tobacco museum with a permanent exhibition on the history of tobacco and its uses. At the entrance, a sign reminds visitors: "No Smoking."

—ESTER LAUSHWAY

Beware of Giants

BRUSSELS—The French daily *Le Monde* recently wrote that France and the United Kingdom had joined hands inside the exclusive Group of Seven (G-7) alliance of industrial nations, casting aside a decision by the



Twelve, leaving the final vote to 42 countries.

Confused? So were a lot of people. This was the complicated arithmetic undertaken by the 42-nation European Bank for Reconstruction and Development (EBRD), designed to help restructure the shattered economies of Eastern Europe.

The charter officially launching the EBRD was signed in May after a fierce diplomatic battle between Paris, London, The Hague, and Brussels. For Belgium and the Netherlands, who had formed a pact to promote the latter country's interests, the defeat was complete: By a huge majority, French candidate Jacques Attali was voted the EBRD's first president, and London was chosen as the site for the new bank.

This outcome completely surprised the Netherlands and Belgium, who had expected more support for Dutchman Onno Ruding as president or, at least for scenic Amsterdam as headquarters. As a result, these two small E.C. countries are quite bitter.

"You will see frictions develop inside the European Community," said an official close to Dutch Prime Minister Ruud Lubbers, "and it will worsen relations between France and Holland." Belgian Foreign Minister Mark Eyskens adds that such a pact between Paris and London "may throw the European Community into a confidence crisis."

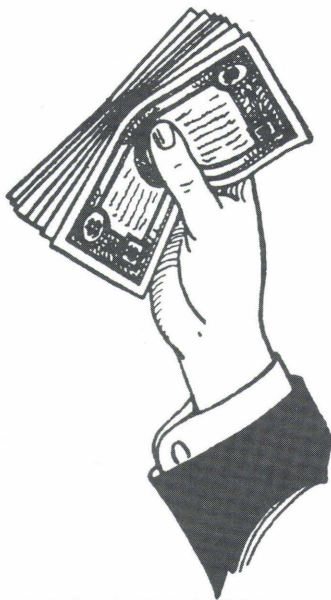
Few challenge Attali's intelligence. He has, for instance, been French President François Mitterrand's closest adviser for the last 10 years. And regarding the EBRD's headquarters, Belgium had no real objections against London, which is already Europe's leading financial center.

But Belgium, the Netherlands, and some other E.C. countries resented that the fate of an institution sponsored by the E.C. Commission had ultimately been decided by their bigger neighbors. Indeed, un-

able to find a majority among the Twelve, France and the United Kingdom turned to the G-7, whose five other members (Japan, the United States, Canada, West Germany, and Italy) endorsed the Franco-British plan.

That strictly national interests overtook group loyalty to the E.C. was not surprising. The move by France—together with "the acquiescence of Bonn," noted a Belgian official—reminded the small E.C. countries that France, West Germany, the United Kingdom, and Italy, still take the lead.

—CHRISTOPHE LAMFALUSSY



Loosening the Reins

ROME—Will the Italian Government remove price controls and relinquish its hold on public service tariffs? It looks that way. When it does, one of Italy's most resistant bulwarks of conservative economics will finally fall. This is one more step toward adapting Italy's structure and mentality to the pace and the average of the rest of the international community.

The proposal is still being studied, but is directly supported by Italy's Minister of Industry, Adolfo Battaglia, who proposed it. Barring last-minute hold-ups, it seems as though the conclusions drawn by the commission will shortly become a



Italy's free-marketeters Oscar Mammi (bottom right) and Adolfo Battaglia (above left) are instrumental in reducing state involvement in enterprise.

concrete proposal for a law. The present regime of administered prices in various sectors and for various products (such as gasoline, gas-oil, automobile insurance premiums, medications, etc.) will thus be overcome.

Battaglia is following the British model, in which a semi-automatic mechanism adjusts prices periodically and negotiates these adjustments with its social counterparts. The inflation rate, adjusted by predetermined productivity increments, will be the catalyst for new increases.

In fact, the decrease in Italy's inflation, coupled with an upcoming antitrust law and

Battaglia's liberalization policies, have paved the way for the reforms to the old system. This was undoubtedly inefficient and based on a distorted interpretation of the state's role in intervention in, and protection of, prices and tariffs.

A final push toward Italy's acceptance of free-market principles was the demise of the state monopoly on radio telephones. The idea to break that monopoly came from one of Battaglia's colleagues, Post and Telephones Minister Oscar Mammi, also from the small but plucky free-market oriented Republican Party.

Commenting on Italy's backwardness in the telecommunica-

tions sector—recent statistics place Italy last in this sector among the industrialized countries—Mammi said that Italy wanted to “jump the gun” and adapt its telecommunications sector to the new realities of the market before the E.C. imposed deregulation.

The first step will be to deregulate communications via radio telephone, a field that is still relatively small. But the final goal could be a total deregulation of telecommunications, as in the United States.

—NICCOLÒ D'AQUINO

Tough on Immigrants

MADRID—Spaniards may have begun to seek their fortune elsewhere when Columbus opened up the Americas, but the Civil War turned Spain into a country of emigrants.

The first wave of political refugees flooded to the Soviet Union, France, and Latin America at the end of the war in 1939. The economic desolation in the following decades prompted many others to migrate in search of jobs. Even now, the national railway adds special trains northward during the French wine harvest.

But the train has fewer cars each year. Spain, meanwhile, is home to a growing number of immigrants attracted by the country's recent economic surge.

Unfortunately for these Africans, Latin Americans, Asians, and Eastern Europeans, Spain seems to have forgotten its own emigrant tradition as it assumes the role of policeman of the E.C.'s southern flank.

According to a report released in Brussels recently, nearly 300,000 of the 778,000 foreigners living in Spain are illegal, and more than half suffer economic hardship.

The study, carried out for the E.C. by the Isoplan Institute of West Germany, debunked the Government's official asser-

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NEWS IN BRIEF

Export curbs on technology sales to Eastern Europe are to be eased by CoCom, making it easier for US companies to export a wider range of products in the coming months. The 17-nation Co-Defensive Committee for Article 1...

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tion that Britons form the largest single group of expatriates in Spain and that 52 percent of all foreign residents come from E.C. countries. Those figures were based only on legal residents over the age of 18.

Another study, this one by Caritas, a charity run by the Spanish Roman Catholic Church, says 160,000 of the illegal immigrants come from Latin America, while 90,000 come from Morocco. Another 45,000 illegal immigrants are Portuguese, and 43,000 are Filipinos. A total of 26,000 come from Central Africa and 25,000 from Poland.

By French or West German standards, the proportion of immigrants to natives in Spain—a country of 39 million—is very small. But Spain's immigration laws are among the toughest in Europe.—RICHARD LORANT

Blowing the Whistle

LUXEMBOURG—About twice every year, the E.C.'s smallest institution, based in Luxembourg, comes into its own. On those occasions, the 375-employee Court of Auditors, the E.C.'s financial watchdog, regularly blows the whistle on any case of fraud that it has uncovered during the course of its diligent audit of the Community's accounts.

The latest instalment in the Court's continuing revelation of fraud and dirty dealing has uncovered a major scandal involving the E.C.'s \$2.6-billion farm fund. In this case, over \$50 million was siphoned away by traders from various E.C. member states who took advantage of special measures intended to help West Germany sell off a two-million ton wheat surplus.

The fraud came to light when two auditors on a trip to Hamburg came across grain that was being transferred from the front hold of a ship through a dockside silo and back into the back hold of the same ship.

ATHENS

The Panhellenic Socialist Movement, better known as PASOK, which was defeated last June after eight years in power, will hold its Second Congress in September. It seems likely that PASOK's founder, former Prime Minister *Andreas Papandreu*, 71, will remain the boss. Despite rumbles of discontent about his style of leadership, he has no obvious heirs or challengers. His son, *George*, 38, who served as Education Minister in 1988–89, was asked recently about his own aspirations. He replied: "I would regard the succession of Andreas Papandreu by another Papandreu as negative. Negative for the party."

Veteran American theater and film director *Jules Dassin* has long been a permanent resident in Greece, having married the actress *Melina Mercouri* in 1962. Mercouri, who was PASOK's Culture Minister, is known worldwide for her energetic campaign to wrest the Elgin Marbles ("What Elgin Marbles? You mean the Parthenon Marbles?") back from the British Museum. Now Dassin is working on an autobiographical film, the script of which he wrote in just five weeks. Asked if he always wrote so fast, he answered: "Yes, I wrote *Rififi* in six days, and *Never on Sunday* in 10 days."

PARIS

Gérard Depardieu, France's most prolific leading man (60 films in 18 years), has always had a high profile. But in his last film it is more prominent than ever. To play the role of *Cyrano de Bergerac*, the swashbuckling soldier and poet disfigured by an enormous nose, Depardieu donned a nasal prosthesis that followed and magnified the lines of his own, already substantial, hooter. During the filming of *Cyrano*, Depardieu wore out 100 facial

falsies. The protuberant proboscis brought him luck: At this year's Cannes Film Festival, Depardieu won the best actor award—by a nose.

Orion Classics is bringing *Cyrano de Bergerac* to the United States late this year. Americans planning to see it should stock up on Kleenex. In direct proportion to the size of Depardieu's nose, this is *definitely* a three-hanky movie.

BONN

Hinrich Lehmann-Grube, 57, the "Red Prussian" as his West German SPD friends in Hanover call him, has become Lord Mayor of Leipzig. Lehmann-Grube says he accepted the offer to run for Lord Mayor because the task "is such a challenge—the acute housing shortage, the polluted air, and the crumbling tenement blocks." The change from Hanover, where he was the city's director with a comfortable monthly salary of \$7,440, to the modest salary of \$1,785 in Leipzig, doesn't bother him. "Life has always treated me well. Now I can make do with a little less," he says.

COPENHAGEN

The Eurofed, the E.C. equivalent of the U.S. Federal Reserve, may still be a long way off. But the first woman member of the board has already been appointed. She is *Bodil Nyboe Andersen*, 40, a new member of the board of the Danish Central Bank. A brilliant economist, Andersen was the first woman to become a top banker in Denmark. She graduated from the University of Copenhagen with the second-highest grade ever awarded in the history of that institution. Who was better? Her father, *Poul Nyboe Andersen*, also a former top banker and former liberal Minister of Economics.

The purpose of this time-consuming operation, which took two days, was to satisfy E.C. regulations that only wheat and grain "exported from West Germany" could qualify for the special subsidy. As far as the officials were concerned, a quick pass through a dockside silo was sufficient to classify the grain as "German."

In the end, of the 845,000 tons of grain that qualified for the special subsidies, only between 130,000 and 160,000 tons were actually from a German harvest, with the rest coming from France, Denmark, and the United Kingdom. And although the traders had to pay \$10 for the unusual dockside transfer operation, the amount the E.C. paid in subsidies still made it worth their while.

The Luxembourg-based Court pulled no punches in criticizing the E.C. Commission and its regulations. Its latest report said that the system of export refunds for agricultural products was too complicated, that the rates set were not always substantiated, and that the E.C.'s export policy was vague and seemed—to the Court—to be based on a game of cat and mouse with the United States, in which "each attempts to outdo the other in a subsidies race."

Every Court of Auditors report provides new embarrassment for the E.C. Commission. As a result of previous reports, the Commission was forced to set up its own Anti-Fraud Unit, aimed at preventing the Commission services from dreaming up such tortuous regulations that they positively invite unscrupulous people to take advantage of them.

Similarly, each time a Court of Auditors report is released, there are pious statements from national authorities, who are responsible for paying out the E.C. subsidies to their own national traders.

But it seems that fraud continues to grow, despite the best effort of the Court of Auditors.



Since joining the E.C. in 1986, Portugal has launched a massive public works program to modernize its cities and infrastructures. Above: The Costa Verde.

PHOTOS COURTESY PORTUGUESE NATIONAL TOURIST OFFICE

Although it will always be difficult to make accurate estimates, some claim that fraud may account for 10 percent of the E.C.'s budget—or up to \$10.2 billion per year.
—DENISE CLAVELOUX

Closing the Gap

LISBON—The Portuguese automobile club has just distributed its 88th edition of Portugal's definite road atlas. With it came a letter cheerfully drawing attention to the inclusion of "recent major improvements in the Portuguese road network."

On unfolding the map, however, one finds that the country's main road artery—the 312-kilometer-long northern tollway linking Lisbon to Oporto in the industrial heartland—is still a good 25 percent short of completion 20 years after it was begun.

The massive and costly delays in providing even a minimal four-lane road network to handle the crushing weight of E.C.-

generated freight traffic and domestic distribution is well illustrated on this map: The white double outline that indicates "planned construction" still far outdistances the solid red stretches that tell harassed travelers a halfway decent road lies ahead.

The state of these insufficient infrastructures has been greatly improved since Portugal joined the E.C. in 1986 and the current Government embarked on a huge public works program. The country was spurred by massive E.C. aid programs and embarked on a mad rush to modernize everything.

So it is no surprise that the Portuguese were disturbed to hear a Community voice raised against the effort. Riccardo Petrella, director of the E.C.'s FAST program—a think tank for futuristic Community scenarios—says Portugal runs the very serious risk of seeing the gap with the industrialized members of the E.C. widen even further if it continues to base its modernization strategy

on the models of other member countries.

He says the attempt to close that overall gap implies, among other things, significant investment in transport and communication infrastructure, professional training, development of the services sector, rapid reprivatization of state enterprise and industrialization of agriculture, huge export drives, major inflows of foreign investment, and financial assistance from the World Bank and the European Community.

In addition, there will be social costs like limits on domestic consumption, wage ceilings, liberal layoff legislation, restrictions on workers' rights, and considerable agitation on the labor front. Even so, it will take half a century to close the gap.

Petrella's alternative is to concentrate massively on countrywide, across-the-board training ("sending everyone back to school"), and investing heavily in what he calls the "beauty industry." The latter would take advantage of Portugal's stock of urban and natural beauty, such

as its cities, streets, beaches, natural attractions, and industrial design. He further advocates greater Portuguese involvement in new areas, such as biotechnology and information technology.

Petrella's controversial views coincide with some alarming statistics just released. These show that more than one in three of Portugal's 10 million inhabitants lives below the absolute poverty line and that the country lacks some 430,000 houses to meet just current existing slum clearance needs.

—KEN POTTINGER

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UPDATE

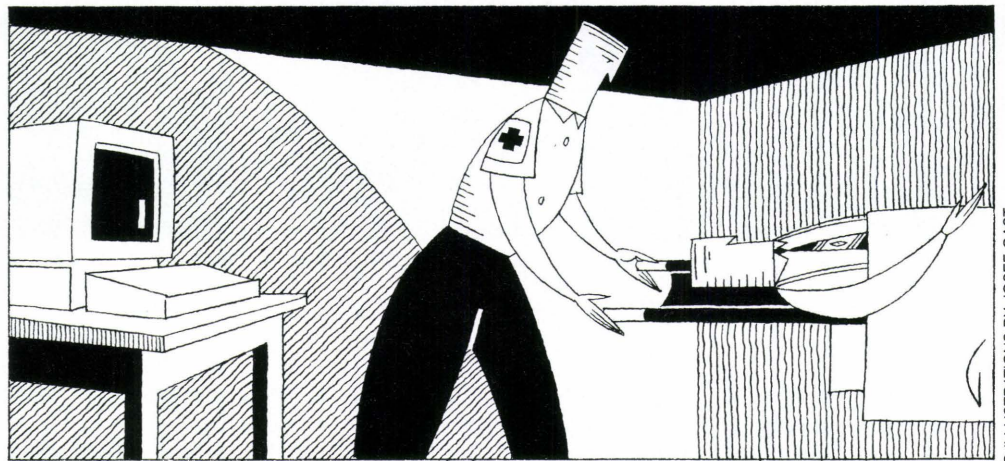
1992

VDUs: TOUGHER HEALTH AND SAFETY STANDARDS

With the increased use of computers, many employees are suffering repetitive strain injury (RSI), the symptoms of which include great pain in hands and arms. RSI can lead to carpal tunnel syndrome, an illness that inflames a person's wrist tendons. The effects on victims range from having to take breaks from work to being permanently crippled.

As a result of the seriousness of this illness, the E.C. has passed a law, to go into effect January 1, 1993, making it mandatory for employers to supply employees with keyboards unattached to the screen, and making both keyboard and screen moveable. Also included in the requirements are standards for seating, desks, and lighting. Employers will also have to allow regular breaks and pay for employee eye examinations.

West Germany and Sweden have had stringent rules for the use of visual display units (VDU) for some time. The E.C. law is more general, however. This had led British ministers, who argue that the new law is too broad, to refrain from voting.



© ILLUSTRATIONS BY JOSEF GAST

This law will increase business costs, but employers are faced with the reality that, without stricter health and safety standards for VDU users, the alternative could be even more costly.—Reuters

TRAVELERS GET BETTER RIGHTS ON PACKAGE TOURS

Starting January 1, 1993, travelers within the European Community who book package vacations will be better protected should something go wrong.

The E.C.'s Consumer Affairs Ministers recently approved a law that would give

travelers more rights, including giving travelers the option to withdraw bookings if the price increased before their departure date. There also would be more efficient procedures for refunds and transportation home for E.C. tourists if a travel company were to go out of business while they were on their vacation.

EUROPEAN CONSUMERS TO GET BETTER RIGHTS

To ensure that European consumers are not overlooked in the single market, the E.C. Commission has established the Consumers'

Consultative Council (ccc) to make certain that consumers' views will be heard. This council consists of European consumer organizations, national organizations representing each of the member states, and individual consumers.

Karel Van Miert, Commissioner for Consumer Affairs, chaired the first meeting of the ccc a few months ago, at which the measures to be proposed by the E.C. Commission before the end of 1992 were submitted to consumers. These measures include comparative advertising throughout the Community; standard contracts with product guarantees after purchases; removing unfair contract terms in sales between two E.C. member states; and protecting consumers in general.

ELIMINATING CUSTOMS CHECKS

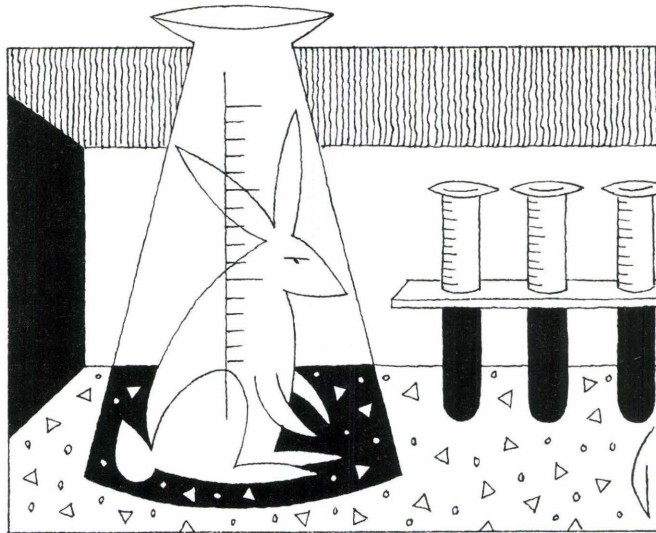
One obstacle that must be overcome in order to completely eliminate all barriers within the European Community is the removal of all customs checks at borders. The E.C. member states have not yet reached agreement on how to eliminate customs checks at the borders of member countries, the reason being the differences in value-added tax (VAT) rates for which the Twelve have not yet agreed on a uniform rate.

In order to make headway, the E.C. Commission has now proposed an alternative to legislation on VAT. Under this plan, border checks could disappear once and for all if the place where the VAT is levied on exports to member countries were changed.

If this proposal is accepted by the E.C., citizens throughout the Community would be able to purchase anything within the E.C. countries while paying the VAT in the country where they purchased the item starting January 1, 1993. Exceptions to this would be automobiles and products bought from mail order firms. In both these cases, the VAT would be paid in the buyer's country of residence.

Firms would then also be able to buy supplies from another E.C. member country duty free. The VAT would be placed on the goods in the country of origin at the time of the first purchase.

Reducing statistical formalities, which would be completely eliminated in smaller firms, is another measure being taken to facilitate the removal of barriers between member states.



LESS ANIMAL TESTING AFTER 1992

The protection of animals in the cosmetics industry is an issue on which the member states of the European Community must reach agreement by 1992.

Karel Van Miert, Member of the Commission responsible for consumer protection, and those Members of the European Parliament who belong to the joint groups on consumer protection, met to discuss harmonizing national legislation on the safety of cosmetics, and updating the Community directive of 1976.

Until now, it has been mandatory for manufacturers to ensure the harmlessness of their product. Since health protection will become more important under the directive revisions, some fear that animal testing will increase also.

Taking this into consideration, the Commission is working on producing a list of non-harmful substances that could be used to produce cosmetics. Since this list would contain substances proven under the laws to be safe to man, manufacturers would not need to continue animal test-

ing.

Van Miert has encouraged testing methods other than those on animals, and advocated creating an E.C.-wide label certifying that a product has been manufactured "without being tested on animals."

NO STANDARD SOCIAL SECURITY SYSTEM IN 1992

After 1992 there will be a harmonization of many things among the 12 member states. One item that will not be unified, however, is social security. This was decided upon by the Twelve because the social and economic situations vary greatly from country to country.

By eliminating barriers between member countries in 1992, people will become more mobile.

Although the Commission does not want to harmonize social security based on the lowest common denominator, the members do want, and are working on achieving, similar objectives for social security throughout the Community.

SUMMIT WRAP-UP

Aid to Soviet Union Dominates Dublin Summit

The question of E.C. aid to the Soviet Union dominated the E.C. Council. Its President, Irish Prime Minister Charles Haughey, noted that the democratic developments in Eastern Europe last year would have been impossible without Soviet President Mikhail Gorbachev, and that the E.C. should ensure that his efforts not be derailed.

In that context, France and Germany advocated an immediate rescue package worth \$15 billion. Other E.C. members, notably the United Kingdom, although in favor of aid, argued against such a "blank check," which it regarded as pouring money down a bottomless pit. Dutch Prime Minister Ruud Lubbers suggested setting up a European Energy Agency that could help the Soviet Union to better exploit its energy resources by supplying much needed capital and high technology. Although no tangible agreement was reached, the Twelve asked the E.C. Commission to prepare a study for future aid programs.

On South Africa, the Twelve welcomed the positive changes in that country, and softened their stance on economic sanctions, but noted that further reforms were necessary if sanctions were to be lifted altogether.

At the E.C. level, the subject of European economic and political union was uppermost on the minds of the Twelve. The leaders agreed to hold two intergovernmental conferences, on economic and monetary union and political union, respectively, in Rome beginning December 14 and 15, 1990.

On political union, leaders disagreed over Europe's future shape (ranging from France's goal of a federal Europe to the United Kingdom's fears of loss of national sovereignty), but agreed that such a conference was especially important in light of the recent developments in Eastern Europe. The United Kingdom urged a "flexible community" that would not deter Eastern European countries from joining.

Another major decision to result from the Council was the reappointment until the beginning of 1993 of E.C. Commission President Jacques Delors.—Reuters

E.C. NEWS

EUROPEAN AFFAIRS

E.C., EFTA Begin Talks on EES

THE E.C. AND THE EUROPEAN Free Trade Association (EFTA), which includes Austria, Finland, Iceland, Norway, Sweden and Switzerland, began formal negotiations on June 20 to establish a common economic zone, the so-called European Economic Space (EES).

EFTA is the E.C.'s biggest trading partner, and its members do not want to be excluded when the single market comes into effect. Within the EES, (which would also include Liechtenstein), goods, services, labor, and capital would flow freely across the borders.

The two sides have outlined an agreement that centers on EFTA compliance with E.C. rules in such areas as technical standards, competition, and public procurement. Problems include EFTA's reluctance to accept current E.C. regulations on agriculture, fisheries, the movement of workers, the free establishment of banks, and the flow of capital.

The key concern is agreement on the EES decision-making process so that the E.C. maintains its autonomy to write its own rules, while also satisfying EFTA's desire for a meaningful role. The negotiators must also establish a joint body to supervise EES regulations, and a legal institution covering the E.C. and the EFTA portions of the "space."

Both groups aim to reach an agreement by 1991 at the lat-

est so that the treaty can be completed and ratified by the end of 1992.

Free Elections Completed in All of Eastern Europe

IN JUNE, CZECHOSLOVAKIA and Bulgaria were the last two Eastern European countries to hold their first democratic elections after more than four decades of communist rule. These last two elections follow closely on the heels of those in Romania on May 20, in which the National Salvation Front received 66 percent of the vote. Its leader, Ion Iliescu, a former Communist, was elected president.

After two election rounds on June 10 and 17, Bulgaria's reform Communists, renamed the Socialists, claimed victory, winning about 211 of the 400 seats in the National Assembly. Despite running a strong, although rushed, campaign, the main opposition group, the Union of Democratic Forces, won only about 132 seats.

In Czechoslovakia's first free election in 44 years, President Vaclav Havel's Civic Forum received an overwhelming 46 percent of the vote. (The Communists scored 13.6 percent, and the Christian Democratic Union about 11.6 percent.)

These results indicate a resounding majority for Civic Forum in both houses of the national parliament, and in the

legislature of the Czech republic. Its partner group, Public Against Violence, constitutes the majority in the legislature of the Slovak republic.

This victory gives full constitutional legitimacy to Havel's proposed coalition Government.

European Court Overworked

THE EUROPEAN COURT OF Justice in Luxembourg is assuming a more prominent and active position in E.C. affairs as it ensures the evenhanded im-

plementation of E.C. legislation.

In the run-up to 1992, the Commission is bringing an increasing number of cases against member states under Article 169 of the Treaty of Rome for persistent failure to implement Community directives. Despite the creation of a Court of First Instance to take over the responsibility for Community staff cases, the Court may soon be unable to cope with the excessive demands.

Apart from clarifying the fundamental principles of the Community, the Court must grapple with the implications, and inter-

EMU IS LAUNCHED

C A R O L A K A P S

The first stage of European Monetary Union (EMU), as agreed at the European Summit in Madrid in June 1989, began on July 1. The emphasis during this stage is on enhancing economic and monetary coherence among E.C. members, strengthening policy coordination within the existing institutional framework, implementing the internal market program, and reforming E.C. structural funds. A newly restructured central banking committee, which is seen as an embryo for the future "Eurofed," has been charged with coordinating the policies of the 12 member countries and assisting the central bank chiefs in drawing up a blueprint for the treaty on monetary and economic union.

According to the Delors Report on economic and monetary union, an institutional framework, for example a politically independent central bank system, would be set up during the second stage. This would prepare for the final stage of EMU, for which exchange rates would be irrevocably

locked together and eventually replaced by a common European currency.

At the June summit in Dublin, the European leaders agreed to speed up this process by calling for a common European currency by 1993. An inter-governmental conference has been called for this December "to lay down the subsequent stages," to negotiate a treaty for Economic and Monetary Union.

Reflecting widely shared concerns about rushing too quickly into a system of fixed exchange rates, the President of the powerful German Central Bank, Karl-Otto Pohl, recently called for a "two-speed approach" to monetary union: Instead of immediately converging countries with widely converging inflation rates, a core group of low-inflation countries would be brought together into the common currency bloc first, which other members could then join as their inflation statistics permit.

pret the large body of internal market legislation in both the central and the less defined areas, such as transport, communications, energy, the environment, and social legislation.

According to Francis Jacobs, one of the Court's six Advocates-General, all Community measures are also subject to judicial review. The Court may have to decide whether legislation is within the competence of the Community or should be handled by the member states.

Malta Applies for E.C. Membership

THE RULING NATIONAL party of Malta has unanimously endorsed the Maltese Government's decision to apply for E.C. membership. The formal application process begins in July.

Maltese Prime Minister Eddie Fenech Adami expressed confidence in his country's ability to face the challenges of membership. "The E.C. we want to join is the Europe of Christian values, of liberty, of spirituality," he said. The leader of the opposition party, Karmenu Mifsud Bonnici, opposed membership, however, claiming it would mean a surrender of Malta's sovereignty.

The vice president of the European Union of Christian Democrats, Kai-Uwe von Hassel, welcomed the decision and said that all E.C. member states would support Malta's application, although he did recognize the difficult process of Malta's integration into the Community.

Britain to Join ERM

REPORTS CONTINUE TO persist that Britain might join

the European Monetary System's (EMS) exchange-rate mechanism (ERM) by September or October, contingent upon the continued strong performance of sterling on foreign exchange markets. An accelerated timetable is being encouraged so that Britain can become a full member of the EMS before the E.C.'s intergovernmental conference on economic and monetary union in December, and thereby strengthen its bargaining position.

But Prime Minister Margaret Thatcher is standing firm on the criteria for Britain's entry into the ERM. She maintains that Britain will join the ERM only when the right economic conditions prevail. Specifically, Thatcher insists that British inflation must drop from 6.25 percent to closer to the E.C. average of approximately 5 percent.

Chancellor of the Exchequer John Major believes that Britain must join the ERM at a relatively high exchange rate to protect the Government's anti-inflation strategy and prevent a premature cut in the official interest rate. He said recently: "I think no one has any doubt now that the Government is committed to joining the ERM and we have set conditions under which that will be possible. A good deal of progress has been made on these conditions, but they have not yet all been met." — *Reuters*

ENVIRONMENT

European Move on Pollution Blocked

AT A MEETING OF THE E.C. Environment Ministers on June 8, E.C. Environment Commissioner Carlo Ripa di Meana urged the member states to stabilize their carbon dioxide output at 1990 levels by the year 2000 to help combat global warming.

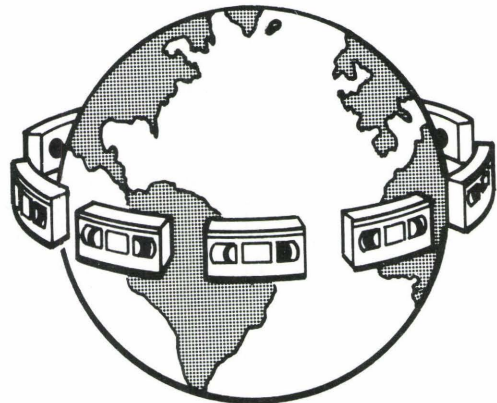
Britain, Portugal, Spain, and Greece blocked that deadline, however, and Britain claimed it might not be able to meet these standards until 2005. Ripa di Meana expressed the hope that this would not be a final position, implying that an agreement by the E.C. would also put pressure on the United States, a massive producer of carbon dioxide, to reduce, or at least stabilize, its output.

The meeting did bring about some agreements, however,

such as a 1997 deadline for eliminating the manufacture and use within the Community of chlorofluorocarbons (CFCs), which destroy the ozone. The member states also agreed to assist third world countries to switch from CFCs and halons to chemicals less harmful to the environment. — *Reuters*

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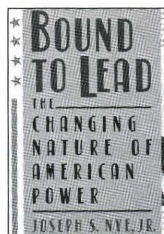
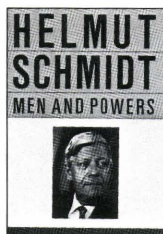
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BOOKS IN REVIEW



Men and Powers—A Political Retrospective. By Helmut Schmidt. Translated from the German by Ruth Hein. Random House. 410 pages. \$24.95.

Bound to Lead—The Changing Nature of American Power. By Joseph S. Nye, Jr. Basic Books, Inc. 307 pages. \$19.95

Roy Katz

Helmut Schmidt's *Men and Powers* is not the former West German Chancellor's autobiography, but rather a series of in-depth profiles of various world leaders he met during his long political career. Schmidt describes his extensive meetings and relationships with, among others, Leonid Brezhnev, Deng Xiao Ping, Valéry Giscard d'Estaing, George Shultz, Richard Nixon, Jerry Ford, Jimmy Carter, Ronald Reagan, James Callaghan, and Henry Kissinger.

Men and Powers is filled with stories about the goings-on behind the closed doors of high-level government meetings, and the activities of the ministers who actually make things happen. Schmidt describes how he formed long-lasting friendships with his counterparts to monitor and discuss pressing international economic problems. He recalls the development of the Library Group, so called because it first met in the White House Library when Schmidt was the West German Finance Minister in 1972.

The Library Group was clearly a high-powered group of economics ministers, since all of its members went on to higher positions in their respective governments. It was composed of George Shultz, Paul Volcker (who was then Shultz's assistant), the United Kingdom's Anthony Barber, France's Giscard d'Estaing, and Japan's Takeo Fukuda. Of Shultz, Schmidt maintains: "Like myself, George is a committed believer in a market economy and free trade, and he opposes inflationary economic policies; this attitude unites us. Intellectually and politically, he is incorruptible."

When writing about his relations with the Soviet Union, it is evident that Schmidt liked Brezhnev, and he describes

their talks at great length. However, in evaluating the Soviets he reminds readers that "it makes little sense to keep measuring the policies of the Russians—or the Soviets—by today's French, British, or American standards. This is surely not the way to influence them. Even less influence will be exerted by moralistic accusations and indictments."

He contends that close relations with the Soviets may require many generations before the "Russians can acquire an understanding of the basic values of people raised and educated in Western cultures." Moreover, Schmidt argues that the Soviets are chess masters because "they are not good at poker and are in no way inclined to stake everything on one bet."

Men and Powers also presents some of Schmidt's views on the global economy. He maintains, for example, that an American-E.C.-Japanese "economic triangle" largely controls the world economy. "Not only the trade in goods and services but also international capital trade and monetary policy are largely played out within the framework of this triangle of economic power." He also argues that the current economic reforms in the Soviet Union are in the European interest, but cautions that "Europeans cannot give more help than the Soviets are willing to pay for."

Joseph S. Nye's *Bound to Lead* focuses on the myth of America's loss of power in recent years. He presents devastatingly persuasive arguments that show that, for at least the foreseeable future, the United States will retain its world leadership politically, militarily, and economically. Nye is a professor at Harvard and a former Deputy Undersecretary of State, and his book is filled with enlightening and thought-provoking statistics that compare the leadership position of the United States relative to the E.C., the Soviet Union, and China.

The book will raise many eyebrows, not only in Washington but in European capitals as well. Nye presents an in-depth analysis of America's current military, political, and economic commitments. He asserts that, contrary to popular belief,

the U.S. defense burden is greater today than in the 1950s, and that "the political burden of American commitments is lighter today than during the Vietnam War."

Nye traces the rise and fall of other powers in recent history, but does not believe that America is facing decline, like Britain. However, he maintains that the United States faces the unusual problems of having to cope "with unprecedented problems of interdependence that no great power can solve by itself."

Bound to Lead offers an interesting discussion of the history of the different types of power, and Nye makes an astute analogy between power and poker. He notes that power in an international poker game means holding the high cards. "A basic rule of poker is that if your opponent is showing cards that can beat anything you hold, fold your hand," Nye writes. "If you know you will lose a war, don't start it."

In addition, Nye asserts that the old measures of power are not valid in today's high-technology economy. He contends that geography, population, and raw materials are less important than technology, education, and economic growth.

Nye also provides a comprehensive analysis of the Soviet economy and its effect on that of America. In describing some of the Soviet Union's difficulties, Nye sees their largest problem in their central planners' "lack [of] flexibility to keep up with the quickened pace of technological change in today's information-based economy."

After all, he argues that such an economy needs free-flowing information, especially among computers, to which the Soviet Union does not allow its people access. Nye points out that by the mid-1980s, there were only 50,000 personal computers in the Soviet Union compared with 30 million in the United States.

Bound to Lead also presents a comprehensive discussion of the E.C. and how it affects the United States. In describing the potential E.C. changes after 1992, the author quotes an Italian industrialist who observed that "the center of economic and political weight had moved in the past years to the Pacific. Europe had no option but to get together. For Europe, 1992 is a deadline for not being dead."

Roy Katz, a freelance book critic in New Jersey, writes a regular column for *Wall Street Computer Review* magazine.

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